

Nation's Business

A USEFUL LOOK AHEAD

APRIL 1959

ACTION NOW CAN STOP



INFLATION

PAGE 84

Rising incomes will change markets **PAGE 31**

High taxes cramp business growth **PAGE 36**

Wanted now: These executive traits **PAGE 34**

Labor's targets for the 1960's **PAGE 38**

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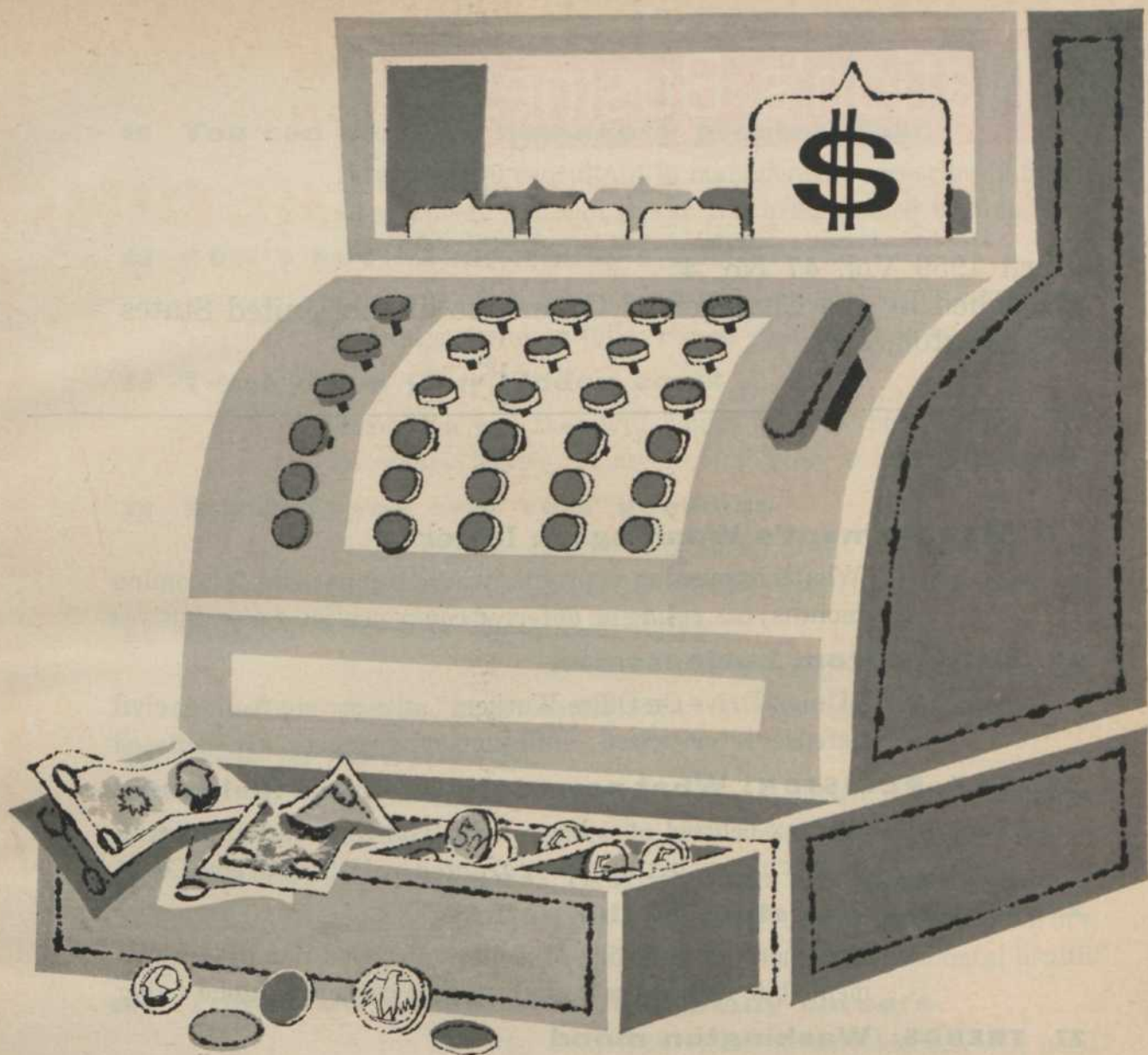
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Nation's Business

April 1959 Vol. 47 No. 4

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Washington, D.C.

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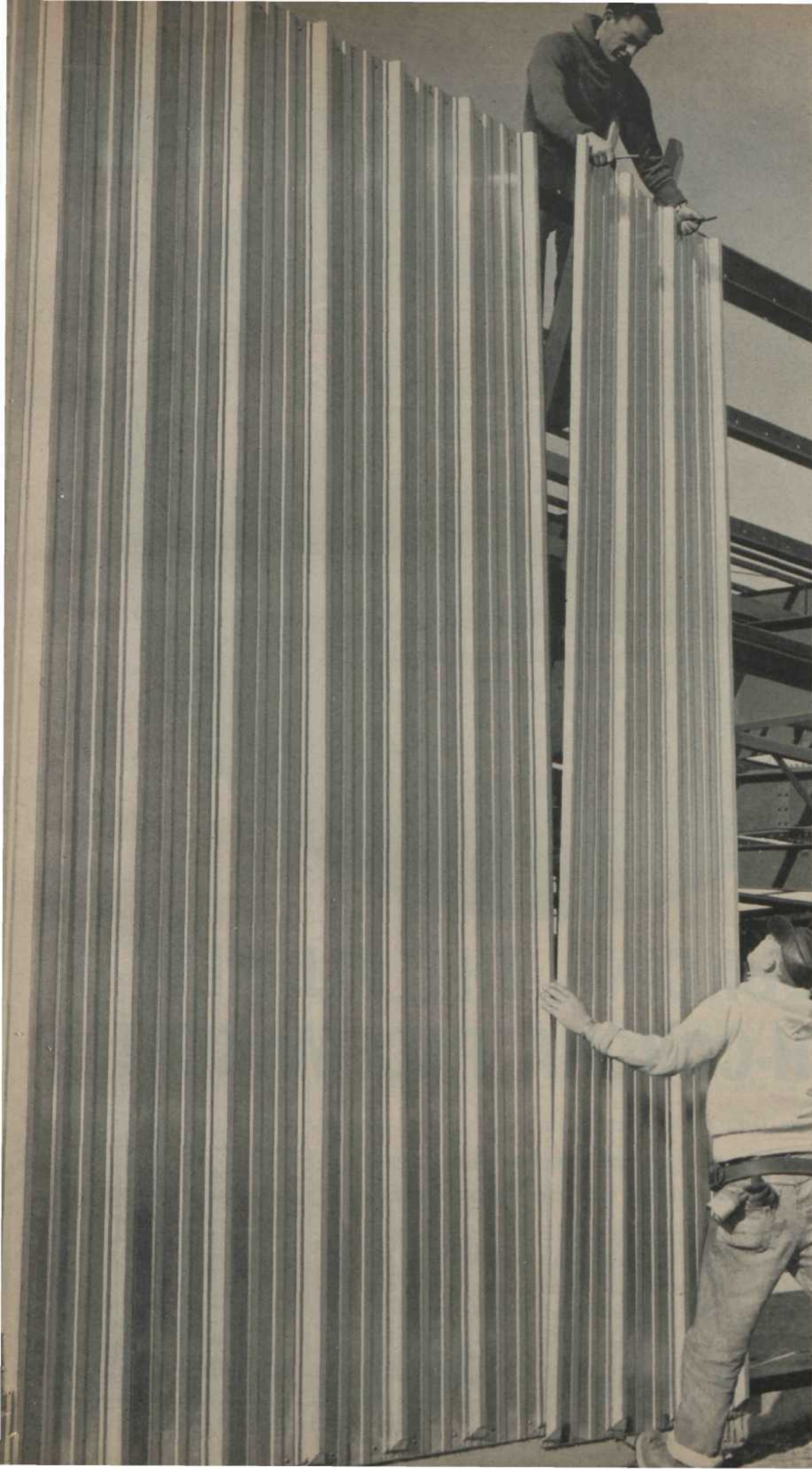


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management's WASHINGTON LETTER

►DIRECTION OF BUSINESS GROWTH is firmly set.

Prospects for months ahead are good.

Top economists in Washington tell NATION'S BUSINESS:

Indicators point to continuation of steady expansion for remainder of this year, well into next.

That's where we stand one year after statistical bottom of 1957-58 downturn.

►FUTURE SHAPES UP like this:

Gross national product (total worth of all goods, services produced in U. S.) will reach \$480 billion annual rate by year end.

Rate's about \$460 billion now.

For 1960, the \$500 billion rate will be reached early in the year--probably no later than a year from now.

Economic cloud--unemployment--will be slow blowing away.

►PROFITS WILL GO UP MORE in months ahead.

But note this trend:

Profit climb during '58 was 39 per cent.

Annual rate in '59 is expected to go up another 11 to 14 per cent.

►WHAT'S HAPPENING TO PROFITS is this:

Nosedive began two years ago.

Corporate profits plunged from \$46.1 billion annual rate in early '57 to \$31.7 billion rate in early '58.

That was low point.

Slow upturn pulled annual rate back up to \$32 billion by midyear.

Then rate jumped back to \$44 billion by year end '58.

Washington estimate now is that annual rate will rise to \$49 billion, maybe \$50 billion by fourth quarter '59.

That means:

Profit average for '59 will be close to \$47 billion.

(Tax liability: \$21.5 billion.)

►PROFIT UPSWING PROMISES trouble ahead for many businessmen.

Here's what to expect:

Union demands this year are influenced by 39 per cent profit rise last year, by fact that profits this year over-all will be highest ever.

Meaning is: Union negotiators will

be tougher to deal with, will ask more, hold out longer, demand broader benefits.

Note: Unions use total profit gains for bargaining purposes--regardless of how different companies fare profitwise.

►LOOK AT PROFITS as per cent of sales.

Picture's different, more in focus.

Facts are:

Earnings (before taxes) in '56 were highest in history--\$45.5 billion.

(Taxes paid: \$22.4 billion.)

Before-tax profits then represented 8 per cent of total sales.

Expectation is that '59 profits will exceed '56 total by about 3 per cent.

But profits as per cent of sales will dip to 7 per cent.

►LEGISLATION IS PENDING that could hike your wage costs, involve you still more in federal regulation.

Two parts to this issue:

Whether to push wage floor up 25 per cent (to \$1.25 an hour).

Whether to include 7.5 million more workers in federal minimum wage law.

Power behind proposal is strong.

It's co-sponsored by 7 members of Senate Labor Committee.

This group has primary jurisdiction.

Only 8 votes are needed for committee approval of the measure.

Bill would extend law's coverage to 7 types of business:

Retail, service enterprises, laundry and dry cleaning, local transit systems, taxicabs, construction.

Also any business engaged in or producing goods for interstate commerce if sales are \$50,000 or more a year.

For time over 40 hour work week, minimum wage is time and a half.

►NEW LAW REGARDING COMPETITION in business is in the making.

It's called S. 11.

Proposed in other Congresses, proponents now think chances of bill's passage are improving.

Involved is:

Basic right of businessmen to meet in good faith the lower price of a competitor.

Supreme Court ruling in '51 declared good faith as absolute defense to



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Letters from businessmen

Union drive reaction

I'd personally like to see the manufacturers put into practice some of the programs to help the white-collar worker, as mentioned in your February 1959 article, "Union Drive on Office Workers."

I am not a union man. I don't want to be. I want to be loyal to my company and see it grow. I feel that I am entitled to only that which I'm able to gain by honest and diligent work as an individual; not by belonging to a union.

Unions are not for individuals or individuality. It is necessary for most people to be individuals in order for them to live with themselves. If a company's management puts its people into the common herd, is reluctant to reward them for individual effort, then they might as well join the union.

R. R. GOODWIN
Bloomfield Hills, Mich.

I am a white-collar worker and a member of management. I have worked with my hands to earn my living and have experienced many difficulties both as a worker by the day and as a member of a management team.

I have negotiated many union contracts. I have no love for the union operator who seeks to undermine confidence or gain advantage improperly.

In my company we have an office union. It has not worked to our disadvantage. We provide the decent things which employees are entitled to. We provide means for two-way communication. We provide wages equal to the community rate. And we have not given away our shirt. We have morale and support of our people and we continue to maintain their goodwill.

If management doesn't want unions, they should do what every self-respecting business in America has done, tidy up their house.

NAME WITHHELD

Thank you for your article on "Here Comes Union Drive on Office

Workers." I shall sharpen up my resistance and be ready for them!

MRS. DOLORES KOLOGY
Billings, Mont.

Money not the answer

Your article, "Bigger Civil Defense Spending Planned," is illuminating. Civil Defense isn't on top of the situation in San Francisco either. The apathy is appalling. We try to find why we are not ready for an emergency after spending all this money, and we get the same fine snow job you got.

It is a crying shame how the thing is allowed to run. I can see now there is no hope for us locally when the national headquarters doesn't know what it's doing. How pathetic!

More money isn't the answer.

EBEN RODGERS, JR.
Belvedere, Calif.

Deflating inflation

It is my opinion that inflation is merely, and tragically, the excess of printing money without a corresponding increase of productive goods; that it is deficit financing that people, unlike governments, cannot get away with for decades on end; it is the accelerated debauchery of our currency by borrowing money to give to foreign governments so they may deplete our gold supply and leave us not only priced out of world markets but, also, with a worthless currency as evidenced by the "flight from the dollar."

L. J. WILLETT, Secy.
Willett Gravel Co., Inc.
Jackson, Minn.

Politicians' success

In the past 25 years, in attempts to end unemployment, etc., we have had one politically made crisis after another, and the resulting inflation proves that this type of cure is worse than the disease itself.

Today's politicians measure their success by the dollars and cents they can get out of the federal government for state and local aid, or subsidies for their friends.

HERBERT E. FRANKE
Weehawken, N. J.



Photographed by Robert Yarnall Richie

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What new state levies on business will mean

BY LEONARD E. KUST



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NBI

THE U. S. SUPREME COURT has just handed down significant new decisions on the power of states to tax income from interstate business operations.

Businesses throughout the country will feel the impact of these decisions, but most vitally affected will be medium and small companies which sell in several states.

The Court's rulings may force some firms to change marketing methods and adopt expensive new techniques of record-keeping for apportionment of net income.

As Justice Felix Frankfurter declared in his dissenting opinion in one of these important cases:

"To subject these corporations to a separate income tax in each of these states means that they will have to keep books, make returns, store records, and engage legal counsel, all to meet the divers and variegated tax laws of 49 states, with their different times for filing returns, different tax structures, different modes for determining 'net income,' and different, often conflicting, formulas of apportionment."

The practical effect of these recent decisions, however, may be more limited than is revealed at first glance. The new decisions on state taxing power came in the companion cases of Northwestern States Portland Cement Company and Stockham Valves and Fittings, Inc., followed a week later by cases involving Brown-Forman Distilleries Corp., ET & WCN Transportation Co., and Olan Mills, Inc. The Court held that:

"Net income from the interstate operations of a foreign corporation may be subjected to state taxation provided the levy is not discriminatory and is properly apportioned to

The author is general tax counsel of Westinghouse Electric Corporation, a director of Tax Executives Institute, Inc., and editor of The Tax Executive.

local activities within the taxing state. . . ."

In framing the Constitution the founding fathers perceived that unrestricted trade among the states was essential to the health of the union. To serve this purpose they gave the federal government power to regulate interstate commerce.

Recognizing that the power to tax was the power to destroy, Chief Justice Marshall in the case of *Brown vs. Maryland* in 1827 held that the interstate commerce clause limited state power to tax interstate commerce. Since then the role of the Supreme Court in a large measure has been molded through efforts to find a proper balance between the taxing power of the states and the need for a unified national economy.

The demand for the Supreme Court to exercise its role as arbiter in this field has seemed to come in waves. The Court's decisions in the past 25 years have described a full cycle. Until the middle 1930's the Court, generally speaking, subordinated the states' taxing power to freedom of interstate commerce. Then, for the next decade, it swung to a view permitting a broader state power to tax interstate commerce, limited only by the multiple-burden doctrine. This doctrine said a tax must not be one capable of being imposed with equal right by every state connected with the commerce and thus result in a cumulative burden greater than imposed on local commerce. But by 1951 the Supreme Court appeared to have abandoned the multiple-burden test and to have reverted to its earlier restrictive attitude toward state power to tax.

In recent years, however, the rising tide of state revenue needs has impelled state legislatures and tax administrators to reach for revenues through the fullest exercise of their taxing powers. As a result, the constitutional power of the states to tax has again come under judicial



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What new state levies on business will mean

BY LEONARD E. KUST



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TAX DECISION *continued*

scrutiny. The Supreme Court last year in the so-called "Michigan Property Tax Cases" sustained non-discriminatory real and personal property taxes on government contractors, measured by the value of U. S. government-owned property they used.

This reflected a new liberal attitude which has now been extended to state power to tax interstate commerce.

The Northwestern States Portland Cement Company and Stockham Valves and Fittings, Inc., cases respectively involved attacks on the Minnesota and Georgia income tax laws. In each instance the taxpayer was a nonresident corporation maintaining only sales-soliciting offices in the state and carrying on its business wholly through interstate commerce.

Justice Tom C. Clark, delivering the majority opinion, emphasized the importance of the cases by announcing that 35 states "impose direct net income taxes on corporations." Attesting further to the court's concern over its action is the fact that three other separate opinions were written, one concurring and two dissenting.

The majority opinion and Justice John Marshall Harlan's concurring opinion labor to demonstrate that the new decisions are only an application of an undisturbed, direct line of prior decisions. It is likely, however, that most observers will agree with Justice Frankfurter that the "decisions break new ground."

Unfortunately, the decisions have left many unresolved questions.

The majority takes great pains to point out, "it is beyond dispute that a state may not lay a tax on the privilege of engaging in interstate commerce," citing the 1951 case of *Spector Motor Service vs. O'Connor*. This case involved Connecticut's tax on the privilege of doing business, measured by apportioned net income from Spector's wholly interstate business.

Thus a distinction devoid of economic reality is erected. Where the business is wholly interstate, a tax directly on fairly apportioned net income is valid, but a tax on the privilege of doing business measured by fairly apportioned net income is invalid. This distinction is further confirmed in the *ET & WCN Transportation Co.* and *Olan Mills, Inc.* cases. It can only mean that states must be careful to label



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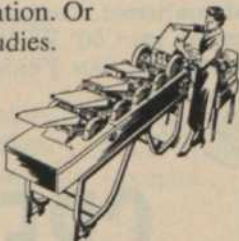
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TAX DECISION

continued

their net income levies correctly.

Some states may be unable to do this because their constitutions limit them to franchise or privilege taxes.

In addition, the Court did not make plain whether a company may be taxed if it has no sales office in the state. By dismissing on procedural grounds the appeal of Brown Distilleries Corp., however, the Court left standing the imposition of an income tax by Louisiana where the taxpayer had no sales office in the state but sent salesmen regularly in the state.

On the other hand the Court implied in its majority opinion in the Northwestern and Stockham cases that casual and irregular entrance into the state by nonresident salesmen would not sustain a tax on net income from interstate commerce. It should follow that making sales with no personal sales solicitation within the state would not subject a company to the tax. But the extent of the activity required within a state to sustain a tax on net income from interstate commerce remains unclear.

The approval of a tax on net income from interstate business where only a sales office is maintained within the state or where salesmen travel regularly into the state, is, however, a significant enlargement of power to tax. What, as a practical matter, does it mean?

In appraising the practical effect of the Court's action it must be recognized that the major sources of revenue from interstate commerce are the 500 or so largest business enterprises. Generally speaking, these companies engage in such a range of activities in most states that they are already subject to tax on their income in these states.

Thus, the impact of the decision is likely to be mainly felt by those medium and small businesses which do an interstate sales business through sales office or salesmen regularly traveling into the state. Businesses having no warehouses or stocks of goods in a state, no service activities or other intrastate business have generally heretofore avoided payment of state income taxes.

Even those corporations which will be affected will find that in at least eight of the 35 states with net income taxes, the tax is a privilege tax and therefore cannot be applied. In at least 14 of the remaining states the statutes or regulations

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TAX DECISION

continued

are so worded that the tax is substantially inapplicable to net income from interstate commerce, at least where there is no sales office in the state. The businesses on which taxes will be imposed may find comfort in the Court's admonition that the levy must "be properly apportioned to local activities within the taxing state. . . ."

In the 35 states imposing net income taxes or taxes measured by net income on corporations the most widely adopted method of figuring the tax base is the so-called "Massachusetts Formula." This formula measures net income arising from business conducted in the state by applying to total net income the average of three fractions: property in the state divided by property everywhere; payroll in the state divided by payroll everywhere; and sales or receipts within the state divided by sales or receipts everywhere.

It may reasonably be concluded that the sales fraction will determine the tax imposed under the latest decisions. If the property or payroll within the state is significant, the business would no doubt have incurred tax under earlier decisions. Thus, property and payroll are likely to be insignificant factors.

How a state determines the numerator of the sales fraction often is biased by the state's economy. Definitions used are sales negotiated in the state, sales shipped in the state, sales shipped from stocks in the state or combinations of these criteria. The resulting variety of sales fractions presents opportunities for tax avoidance. The marketing organizations of the large corporations are not always mobile enough to take advantage of the opportunities for tax avoidance provided by the allocation formulas. Medium and small corporations, on the other hand, may be able to recast their marketing methods to avoid the impact of the new grant of tax power.

Thus, the impact of the decision and the new revenues to be raised may not be as great as at first appears since, first, the tax imposed must be a tax on net income itself, not on a privilege or franchise measured by net income; second, the business must be wholly interstate, no intrastate business must be involved since this itself provides under prior law a basis for taxing the interstate business, as is already

(continued on page 114)



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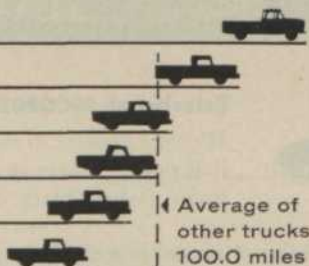
MAKE "G" - 114.1 MILES

MAKE "S" - 102.5 MILES

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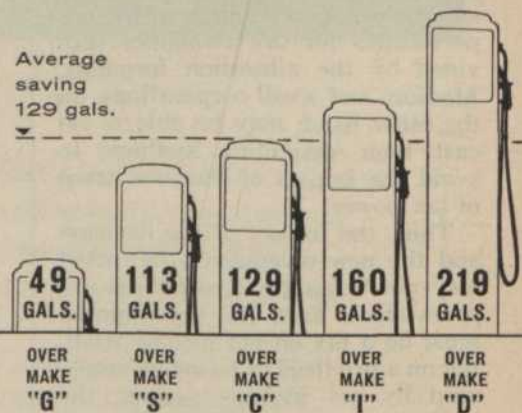
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Here are gas savings you may expect in the first year alone—savings that can add up to *hundreds of dollars* over the years you own a truck. The full report of Economy Showdown tests—filled with information never before available to truck owners—is at your Ford Dealer's now. Be sure to see it!



This '59 Ford Styleside pickup, like those which won Economy Showdown tests, is as easy on the eyes as it is on the gas! Ride is the smoothest of any standard half-tonner.

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Certified! Fords average 25.2% more miles per gallon in impartial pickup truck economy tests!

There's enough difference in gas mileage between one truck and another to save you *hundreds of gallons of gas* in just one year!

To get this story, Ford Motor Company called on America's foremost independent automotive research organization. "We want the facts," Ford said, "truck against truck, fair for all." And thus was born Economy Showdown USA, the huge economy test involving 534 pickups—new models and old—of the six leading makes.

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In all tests combined, the Fords gave 25.2% better gas mileage than the average of all other '59 Sixes.

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How can Ford offer such savings? *First*, of all pickup Sixes, only Ford has modern Short Stroke design.

Second, to this modern engine, Ford has added a new economy carburetor. By metering fuel more precisely, it boosts gas mileage in every kind of driving.

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warns Edwin Feldman



Mr. Edwin Feldman,
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"When the two masked thugs burst into our office our operating funds were out of sight. I took a wild chance and handed them our petty cash box.

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The state of the nation

Federal spending defeats own ends

EXCEPTING THE VERY OLD, people for the most part would rather look forward than back. That is as it should be, since the future always happily offers opportunity to improve on the past.

Nevertheless, it is often important to realize exactly where the roots of present troubles trace. For that reason we may momentarily recall the presidential campaign of 1944, which 15 years ago this month was getting under way. It will be a hazy memory for many, not so much because of the passage of time but because, in 1944, they were in uniform, in far places, coping with problems seemingly far more vital than domestic politics.

Yet politics that year were of the first importance. For it was already clear, in April 1944, that we would win the war. And President Roosevelt, asking a fourth term in the White House, had keyed his campaign to postwar issues. It did not include any doubts about peaceful coexistence with Soviet Russia.

Early in 1944 Mr. Roosevelt had proposed to Congress his "Economic Bill of Rights" under which, he said, "a new basis of security and prosperity can be established for all." There were eight points in this program and it is on them that our present carnival of governmental spending, both national and state, is based. So they merit recall:

1. *The right to a useful and remunerative job in the industries or shops or farms or mines of the nation.*
2. *The right to earn enough to provide adequate food and clothing and recreation.*
3. *The right of every farmer to raise and sell his products at a return which will give him and his family a decent living.*
4. *The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad.*
5. *The right of every family to a decent home.*

6. *The right to adequate medical care and the opportunity to achieve and enjoy good health.*

7. *The right to adequate protection from the economic fears of old age, sickness, accident and unemployment.*

8. *The right to a good education.*

Many times, during the campaign, Mr. Roosevelt reiterated the importance of these "rights." And in his culminating speech, "I know," he said, that the American people "agree with those objectives—that they demand them—that they are determined to get them—and that they are going to get them."

None can determine the extent to which this Economic Bill of Rights has been implemented because none can say what is meant by such glittering generalities as "adequate recreation," "de-

By Felix Morley



SMITH-BLACK STAR

cent living" or even "good education." These phrases have different meanings for different people. Even such meaning as they possess is constantly changing. What seemed decent living to Grover Cleveland—without TV or radio, without a car or telephone—would seem horrible to most Americans today. Nevertheless, there has been much governmental effort in behalf of these mirage-like goals and in some cases, such as the "right to a useful and remunerative job," a measurement of success is possible.

In the first Truman Administration an effort to make centralized government responsible here was made by introduction of a full employment bill. This proposed to step up "federal investment and expenditure" whenever free enterprise should fail to maintain "the level required to assure a full employment volume of production." That grandiose plan was greatly modified in the eventual Employment Act of 1946. Yet this, though with many qualifying clauses, does declare that "the continuing policy and responsibility of the federal government" is "to promote maximum employment, production and purchasing power." This legislation also created the useful Council of Economic Advisers to the President, as well as the Congressional Joint Economic Committee of seven members each from Senate and House.

The philosophy behind the Employment Act of 1946 has often encouraged Congress to appropriate more than the executive departments have budgeted as desirable. But the current unemployment relief statistics show that it has done little to achieve that full employment which is attainable only in a completely socialized slave state. Nor is there any evidence that Americans are willing to accept slavery in order to establish this "right to a useful and remunerative job." Indeed, there is little evidence to suggest that there was ever any strong popular demand for most of the Economic Bill of Rights. The demand which President Roosevelt visualized did not well up from below, but was artificially stimulated from above.

People certainly hoped for a more promising civilization after the war. Those who had fought wanted above all some assurance that the next generation would not have to go through it all again. But this did not mean that farmers were demanding permanent subsidization, that organized labor expected guaranteed employment, that people in general were insisting on government housing, socialized medicine and so forth. There is much more evidence to indicate that the de-

mand for governmental support developed after the right to it had been proclaimed. Naturally, a general will to receive regular bonus checks from the Treasury became real, once people were assured by the President that this ought to be.

As we look back we see that time has brought disillusionment in more respects than the obvious inability of free government to provide full employment. It is now widely realized that the mere effort to do this actually tends to contract employment, and certainly is a substantial factor in the depreciation of the dollar.

With its decline in purchasing power has come frustration for other parts of the Economic Bill of Rights, such as "the right to adequate protection from the economic fears of old age, etc." The social security program has been "liberalized" by Congress in each of the past five election years. Yet the nominally much increased payments today buy no more groceries than in 1949.

To push them still higher would be to press the dollar still lower. Yet there are those who still refuse to see the dangerous mockery that inflation makes of airy political promise. One of these is Congressman James Roosevelt, the oldest son of F.D.R. Arguing for a higher, and more extended, minimum wage this Roosevelt says: "The present \$1 minimum wage is even less adequate than the original 25 cent minimum was in 1938." It is hard for some to see that there can be no adequacy in any form of governmental protection, so long as this erosion of the dollar continues.

In Wonderland, as the Red Queen explained to Alice, you must run hard if you want to stay in the same place. The same is true in that Blunderland which inevitably develops from the theory that government owes all its citizens a comfortable living. That is what they are learning the hard way in Michigan, now facing what its own citizens call "collapse" day, as a result of promising everyone security.

So, 15 years after promulgation of the Economic Bill of Rights, we find a healthy cynicism in regard to socialism growing. It is not the quantity of dollars shoveled out by government, but rather their quality, that is uppermost in the public mind today. This change has a most interesting reflection in the new assignment for the chairman of the Council of Economic Advisers, established by the Employment Act of 1946. He is now asked to identify the governmental activities which actually make it more difficult for private industry to stabilize employment.

As President Eisenhower wisely says: "We need to make sure that we are not contributing to the nation's inflationary problems by the way in which we run our own government business."



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Jim Dwyer discovers the Painless Way

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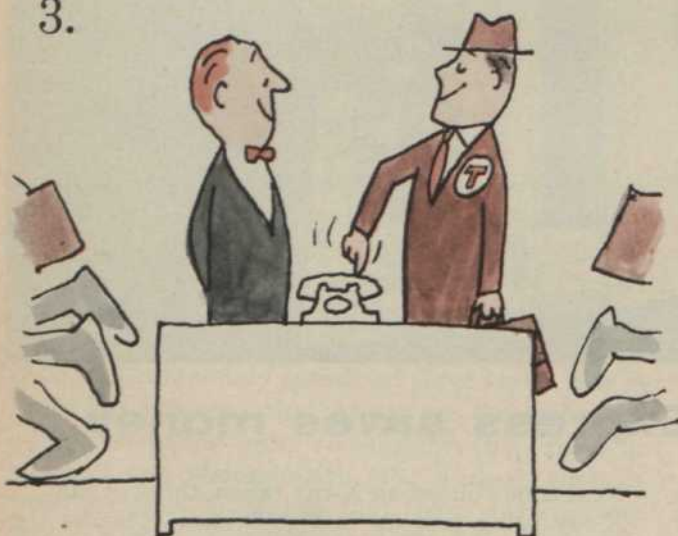
Jim Dwyer fumed, "My firm's insured against catastrophes,
But I've got more insurance men than I have employees!
And when my cash position's bad, a premium bill comes due;
Suppose I made a claim and had forgotten to renew!"

2.



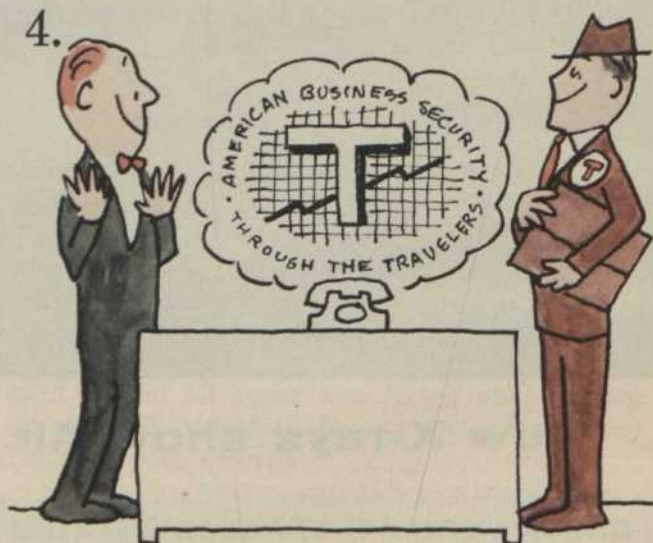
As if divining Dwyer's thoughts, a Travelers man appeared;
"Confusion's reign is over now that we have volunteered.
The Travelers handles every policy—no danger gaps;
Rely on *me* to guard you from a messy memory lapse."

3.



"So far you've been Aladdin's genie," Dwyer answered then,
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And everything is covered by a single monthly payment."

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Washington mood

Khrushchev tries for grab that Stalin missed

THE DAYS AHEAD may determine whether the North Atlantic Treaty Organization is truly what it has been called: a shield of freedom.

When, on April 4, 1949, the United States broke the tradition of nearly two centuries by entering into a military pact in peacetime, it was joining the most formidable array of the sort in all history. Today NATO includes 15 nations—the United States, Canada, Great Britain, France, Belgium, Denmark, Iceland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Greece, Turkey, and the Federal Republic of Germany (admitted in 1955).

These nations are agreed, under the terms of the North Atlantic Treaty, that an attack against one of them shall be considered an attack against them all.

It is a melancholy coincidence that as the foreign ministers of the NATO countries assemble in Washington for the tenth anniversary ceremony, the Soviet Union is again trying to drive American, British and French troops out of Berlin.

Ten years ago, even as the treaty was being signed here, the Russians were blockading Berlin—and the United States was smashing that blockade with a dramatic airlift that laid down on the Tempelhof Airport nearly 1.5 million metric tons of food, coal and other supplies for the people of West Berlin.

Soviet Premier Nikita Khrushchev is now trying to do what Joseph Stalin failed to do in 1948-49—put all of the largest German city under communist rule.



It would be tragedy for the 2.25 million Germans who now enjoy freedom in West Berlin to be enveloped by the Iron Curtain.

The Big Three, backed by all the power of NATO, have told Moscow that they will not be pushed out of Berlin. President Eisenhower has



By Edward T. Folliard

said that the United States and its allies "are not going to give one single inch." Leaders of Congress, Democratic and Republican, agree.

Admittedly, the situation is perilous. Still, the White House, the State Department, and the Pentagon appear to be betting that Khrushchev has no intention of provoking World War III, no matter how close he comes to the brink.

Strangely, there is no agreement here on just what the Russian leader is after, and no agreement either on why he chose this particular time to force a showdown.

One view is that he and his lieutenants in the Kremlin are embarrassed by the situation in divided Berlin, which serves as a sort of show window for the comparison of the West and the East.

West Berlin, which gives its allegiance to the

TRENDS continued

democratic government of Chancellor Konrad Adenauer at Bonn, is a prosperous and booming city, described as the gayest in Europe. East Berlin, governed by puppets of Moscow, is by comparison a slum, bleak and depressing.

Berlin is a glaring hole in the Iron Curtain. Since 1945 more than three million East Germans have fled from their communist rulers to the free air of the West. That is 20 per cent of the East German population.

In 1958 a total of 200,000 escaped by way of Berlin. The worst part of this exodus, from the standpoint of the communist leaders in East Germany, was the quality of the refugees. Many of them were doctors, lawyers, engineers, scientists and teachers. Twice as many university professors fled in 1958 as in the year before.

This situation is one, surely, that Premier Khrushchev would like to end. But whether it is a major factor in his thinking is conjectural.

Some believe he has a real, deep-seated fear of a resurgent West Germany, especially a Germany armed with nuclear weapons.

However, a more tenable theory is that Khrushchev wants to subjugate Berlin so as to strengthen Russia's hold on all the satellite countries. It is sometimes forgotten that the first serious uprising behind the Iron Curtain took place at Henningsdorf, near Berlin, in 1953. The striking workers at a steel plant there marched into East Berlin to protest against their poor standard of living. Soldiers of the Red Army fired on the strikers and broke up the demonstration.

Later came the demonstrations in Poznan and Warsaw in Poland and then the bloody business in Budapest, Hungary.

The men in the Kremlin must feel that there is always the danger of another uprising in East Berlin, especially as long as the workers there can see how much better other Germans are faring under the free-enterprise system in West Berlin. They must reason, too, that unrest in East Germany could well inspire trouble in the other satellite countries.

If all this speculation is puzzling, it is no more so than the background of the Berlin controversy itself. The State Department has published reams of explanation about it, but it remains an extremely complicated and hard-to-understand story.

It begins in January, 1944, in London.

Already the United States, Britain and Russia were planning what to do about Germany once she

was crushed. Accordingly, the three powers had set up a European Advisory Commission in London to make plans for occupying and governing Germany.

On Sept. 12, 1944, eight months before the war in Europe ended, the representatives of America, Britain and Russia on the European Advisory Commission agreed on zones of occupation in Germany. (France later was given an occupation zone carved from the American and British zones.) Under the agreement, Greater Berlin was to be occupied and governed by all four powers.

Unhappily, Berlin was in the zone of occupation given to Russia, 110 miles from the American zone. This meant that the Americans, British and French had to travel long distances through Soviet-held territory to reach the city. They were allotted one highway and one rail line over which to move supplies for their troops and the civilians in their sectors.

Russian troops were the first to occupy Berlin, taking it over early in May, 1945. The American, British and French troops did not arrive until July. By that time the Russians had established a local government dominated by Moscow-trained communists.

The people of Berlin were overwhelmingly anti-communist. They showed it in an election in October 1946, when noncommunist candidates polled more than 80 per cent of the votes. As a result of this the city council moved out of the Soviet sector and into the American sector of West Berlin. The city has been divided ever since.

The current crisis arose last November when Premier Khrushchev announced that Russia would withdraw her troops from Berlin in six months. He demanded that the United States, Britain and France pull out their troops also, and that Berlin be made a free, demilitarized city, guaranteed by the Big Four and the United Nations.

On its face this may not seem unreasonable. But how could Berlin be free when East Germany, within whose boundaries it lies, is a Russian puppet, as thoroughly dominated by the Kremlin as are Hungary, Czechoslovakia and the other satellites?

The crisis differs from that in Korea and Quemoy. There the Russians made trouble by proxy, so to speak, but Berlin means a direct face-to-face meeting between the Soviet Union and the United States and its allies. It is a test for the diplomats whose job it is to talk and talk and so try to head off shooting.

It also could turn out to be a test for NATO, which the President (as supreme commander in Paris) once called a "Wall of Peace."

Multiplication by calculator—

BREEZE



OR BOTTLENECK?



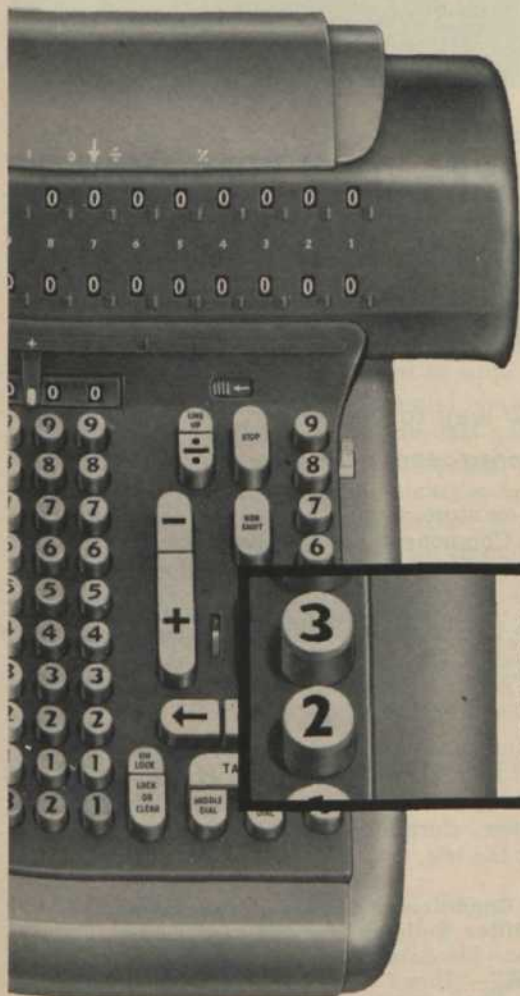
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PERMITS HIGH-SPEED
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Light, lively touch and compact, simplified keyboard make complete touch system easy. You'll breeze through addition and subtraction with this fully electrified adding machine.

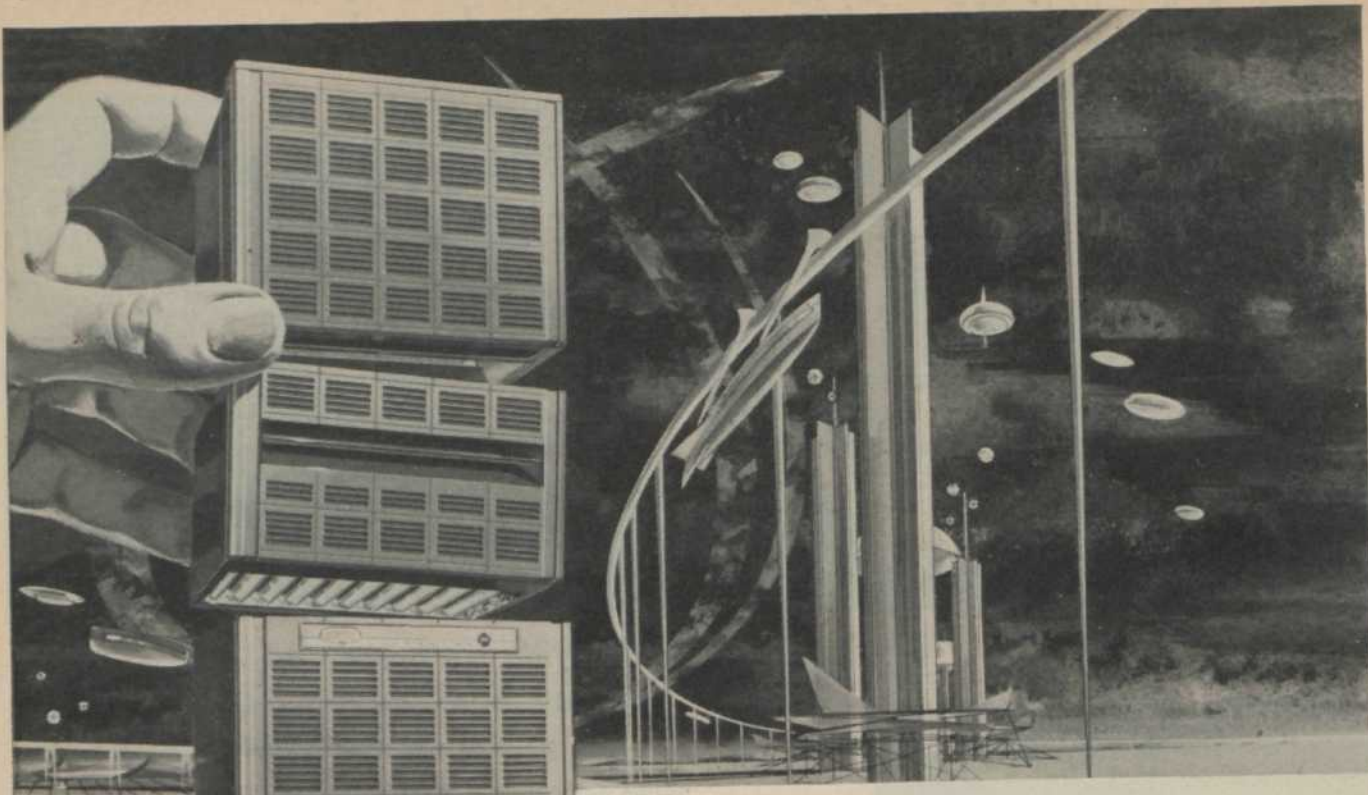
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G-4

NAME _____

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...with quiet, comfort, economy never before achieved*

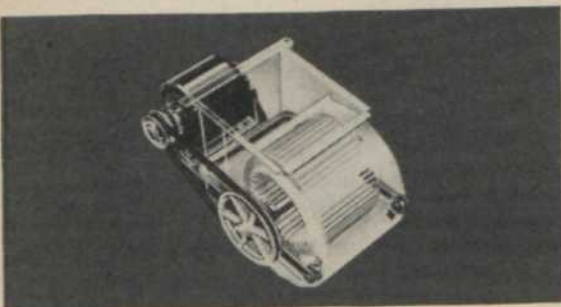
Now for *your* home—or store, shop or office—there's a unique all-year comfort system. Components for heating, cooling, circulating air are individually-sized—so your Lennox Comfort Craftsman can assemble the one right combination for your needs.

So advanced is the Landmark, so skilfully installed, that you'll hear no annoying sounds, feel no drafts, notice no difference in room temperatures. Air is delightfully clean: less dusting, less cleaning, welcome relief from allergies.

Throughout the handsome Landmark, find the quality you seek in something so vital to your well-being: heavily insulated doors and cabinet; aluminized steel heat exchanger, with "accordion" connections for silence, durability; the brilliantly engineered features described at the left.

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Big Hushtone Blower runs at slower, quieter speed in sound-proofed housing; all moving parts "float" on rubber cushioning. Lifetime-lubricated ball bearings. No vibration, no hum, no other blower like it!



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LANDMARK® by LENNOX

World leader in indoor comfort for homes, business, schools

Rising incomes will change markets

Average family will have \$6,000 to spend by 1960

REAL INCOME per person and per household is rising again.

This has dual significance for businessmen.

- It promises to change the shape of markets.
- It promises consumer purchases far larger than the increased number of income dollars might suggest.

The outlook now is that disposable income in the fourth quarter of this year will be approximately six per cent higher, and per capita and household income four per cent higher, than in the last quarter of 1958.

Projections by the U. S. Department of Commerce suggest average disposable income per household may be about \$6,000 by 1960 and exceed \$7,000 by 1970. This would be a 30 per cent rise from 1958 to 1970.

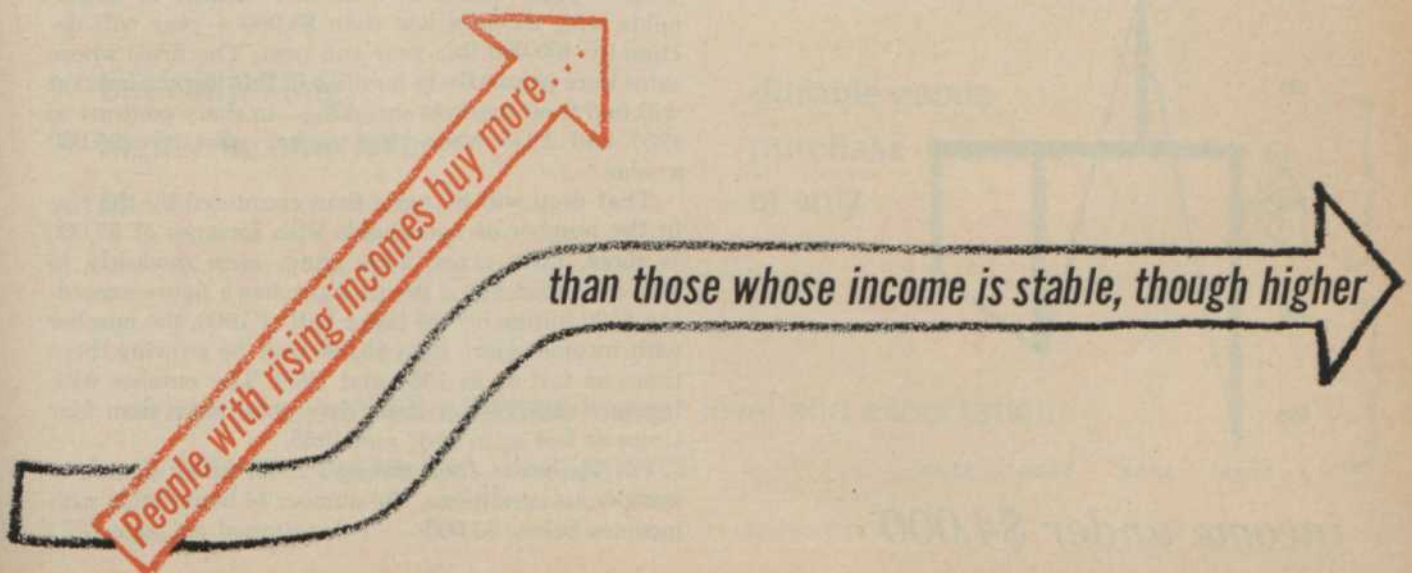
This will mean sharp shifts in the markets of the future. Families with average incomes of \$7,000 after taxes will buy goods in different types, quality and quantity than were bought in 1958, when family in-

comes averaged \$5,900, or in 1950, when average family income was about \$5,000 after taxes in 1951 dollars. Equally important, Federal Reserve Board studies suggest that families whose incomes are rising tend to make major expenditures for durable goods at least 25 per cent more frequently than do families whose incomes are stable.

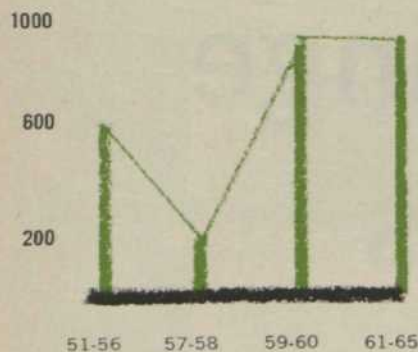
Comparing the experience of 1957 and 1958 with that of other recent years reveals how a rise in income affects standards of living and purchases, particularly of durable goods.

From 1950 through 1956, the number of households with incomes from \$4,000 to \$7,500 a year in 1957 dollars increased by 750,000 a year. The number with incomes of more than \$7,500 increased by 500,000 a year. Although in the period as a whole real income rose at an average of two per cent per year, the gain was not steady.

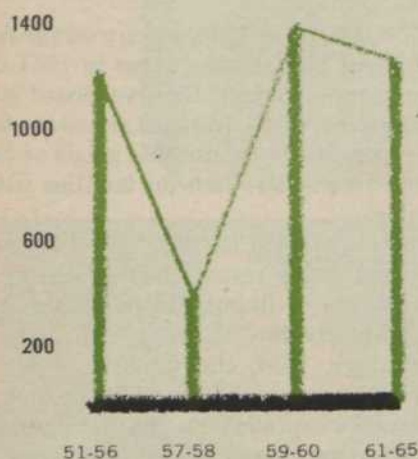
In 1950, 1953 and 1955, when income actually rose,



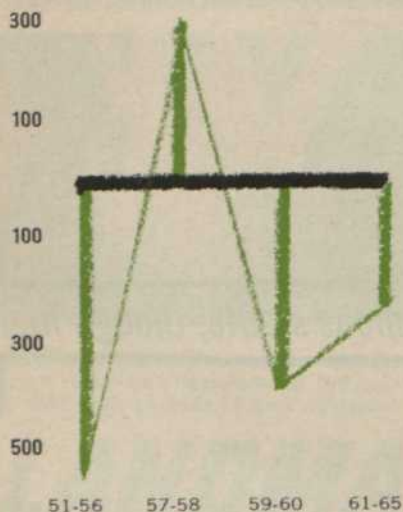
*average annual
change in number
of households with ...*



income over \$7,500



income over \$5,000



income under \$4,000

the demand for durable goods increased greatly. Because changes in real per capita income have a delayed effect, momentum helped carry durable goods sales over the years when incomes did not rise or actually dropped slightly.

Sales of autos were stimulated by special conditions in 1955, and dropped appreciably in 1956, but sales of furniture and household equipment continued to rise with the growth in average income and reached a peak in the fourth quarter of 1956, despite restraints that the government had imposed on home building more than a year earlier. Sales of other durables rose until about the third quarter of 1957, slightly after the peak in real per capita disposable income had passed.

Momentum did not help in 1957 and 1958 because the no-growth period was too long. The number of households whose incomes were more than \$5,000 after taxes in 1957 dollars increased only one third as fast in those two years as it had from 1950 through 1956.

The increase in the number of families with incomes of more than \$4,000 was offset by an increase in the number with incomes below \$4,000. The growth in the number of households with incomes of \$4,000 to \$7,500 was more than cut in half and the growth in incomes of \$7,500 and more was cut by two thirds.

Since 1951 there had been no similar period in which real per capita income stopped growing for two years. So, sales which depended on the upgrading of incomes were at a serious disadvantage. Families which had been buying more or bigger cars as their real incomes rose decided to think twice in 1957 and 1958. Some purchases which were not postponable when incomes were rising became postponable when incomes ceased to rise. This meant that purchases of durable goods, especially durable goods with a potential long life such as autos, could be and were postponed.

Now the rise is beginning again. If recovery proceeds in safe fashion and disposable incomes reach roughly \$325 billion in 1960, the number of households with incomes less than \$5,000 a year will decline by 400,000 this year and next. The firms whose sales were primarily to families in this income bracket will find their markets shrinking—in sharp contrast to 1957 and 1958 when this market grew by 400,000 a year.

That drop will be more than countered by the rise in the number of households with incomes of \$5,000 or more, after taxes. This group grew modestly in 1957 and 1958 but if the GNP reaches a figure exceeding \$500 billion by the latter half of 1960, the number with incomes more than \$5,000 may be growing three times as fast as in 1957 and 1958. The number with incomes of \$7,500 or more may grow more than four times as fast as in 1957 and 1958.

For the years 1961 through 1965, under generally prosperous conditions, the number of households with incomes below \$5,000

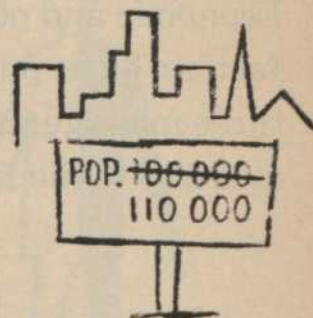
(continued on page 108)

How income changes affect spending

Community
income increase
of

10% = 10%

durable goods
purchase increase
of



When increased income results from **population growth** rather than increased family income

Community
income increase
of

10% = 24%

durable goods
purchase increase
of

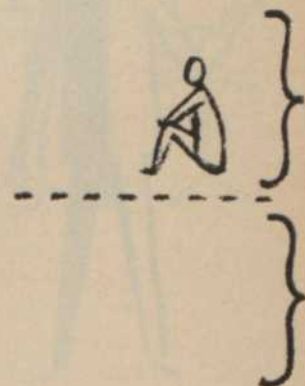


When increased income results from **rising family income** and population remains same

but continuing
higher income level
of

10% = 4%

durable goods
purchase increase
of only



When incomes **stabilize** at higher level and expectation of future growth has disappeared

WANTED NOW:

THESE EXECUTIVE TRAITS

Economic and other factors have pushed three managerial qualities to the fore

AMERICAN INDUSTRY is drawing up new specifications to apply to its key managers.

Most of the traditional leadership qualities and skills are still in demand, but the emphasis is shifting. Certain characteristics have sprung to prominence. These will be most sought-after in executives to be hired and promoted in the immediate future.

NATION'S BUSINESS interviews with executive search and management development specialists reveal this subtle change in emphasis as well as other trends in executive mobility.

A manager's position, of course, defines many of the qualities he must possess. But beyond his particular specialty or function in his own industry, these traits seem most in demand today:

- ▶ The manager must be flexible. Not only must he be able to adjust to sharply changed operating conditions, controls or goals, he should be able to mold himself to his organization's pattern even in his manner of living off the job.
- ▶ He must get results. A record of accomplishments is being stressed, not merely the promise of potential.
- ▶ He must have vision. He should be able to see both himself and his company in perspective as to their future roles not only in industry but in society.

They're asking for



Knowing what is most wanted in managers today is important not only to individual executives but to corporate boards of directors and management policy-makers who must stay on top of such developments.

The reasons for emphasis on the characteristics of flexibility, result-getting and vision are rooted in several factors: lessons learned in the 1957-58 downturn, rapid technological change, modern corporate organization, and the growth of executive development and the professional business manager.

Though managerial excellence is always a coveted resource, demand for skilled executives is greater now than ever. Not only are companies looking for more executives to guide their expansion in the expected boom of the 1960's, but many companies are scrutinizing their organizations to sift out those managers who are only average.

Few companies hesitate to look outside their own corporate family for key men. And it is a rare executive who won't at least look into what another available post has to offer him. Within the company, many a re-appraisal is being made. In some cases scapegoats have been found to take the blame for recession losses. These men have been replaced by

managers with different talents or opposite characteristics. But in most instances new knowledge has been applied with wisdom.

1. Flexibility

The flexibility that is sought in a manager today manifests itself in his actions and in his relationships with other people in his organization.

Some managers with several years' experience had difficulty adapting to the late recession. Their whole manner of thinking and acting had been prosperity-oriented. Their philosophy had to be temporarily recast.

In the future, managerial thinking will have to include the possibility of downturns as well as growth. And, as research and innovation accelerate the pace of change in procedures and products, managers will be forced to adjust quickly to new forecasts, conditions and quotas. Some time limits, objectives and controls can be put on even fundamental research, many administrators believe. More standards and criteria probably will be established for more managers in the future.

Equally important, apparently, is the ability to adjust to the frequently tacit policies or accepted fashions of an organization.

"Companies are looking for men who are patterned in their image," says Ward Howell, president of Ward Howell Associates, Inc., an executive search firm. "Today the man as a whole is examined: his family, how he fits in a community, how well adjusted he is."

"The rugged individualist, unless he has the rare quality of being politic, does not last in companies today," according to J. Francis Canny, of Hoff, Canny, Bowen and Associates, Inc., executive search specialists.

Sid Boyden, president of Boyden Associates, Inc., another search firm engaged in locating top executives, notes that "Industry is run by teams today, not individuals. All companies have access to the same bricks and mortar, the same customers, the same advertising agencies. The variable distinguishing the successful from the unsuccessful organization is the caliber of the executive team."

One veteran of executive search activity judges his managerial recruits on the basis of how well they have gotten along with their superiors, peers and subordinates in their work. This he considers the most important test of the manager. Another leader in this field points out that top managers' personal lives must be exemplary. They must be socially conscious of the impression they are making at all times because to stockholders and customers alike they are the company.

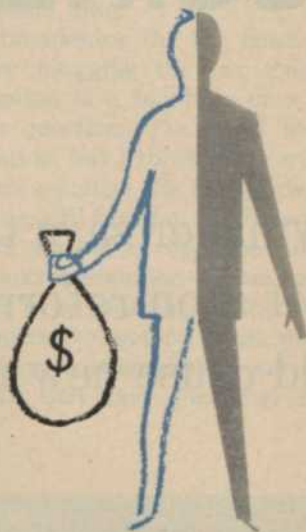
"It isn't done," is a mighty important group of words right now," says William G. Shepherd, program director for the American Management Association's four-week executive development course. "Though companies are looking for executives with more brand-new, creative ideas, they are being obliged to conform more than ever."

One executive recruiter tells of a young executive who made a killing in his own small business, then joined a large corporation as a manager in a small midwestern community. The young executive lived in his own apartment rather than in the apartment house with other company bachelors. He sped around town in an expensive sports car, dedicated his spare time to a collection of classical records and otherwise distinguished himself as being different. In due course he was instructed by his superiors that he would have to conform to community ways and try to "fit in" if he wanted to stay with the company in that area.

2. Getting results

"There is more emphasis now on getting men who get results," says Robert A. Howard of Hoff, Canny and (continued on page 90)

... who are proven
profit makers



... with vision



HIGH TAXES CRAMP BUSINESS GROWTH

Lawmaker says tax system, if not soon reformed, could cause new recession



A Nation's Business interview
with Rep. Thomas B. Curtis

HIGH TAXES ARE STUNTING America's economic growth.

That's the opinion of U. S. Rep. Thomas B. Curtis, Republican of Missouri and an influential member of the tax-writing House Ways and Means Committee.

Mr. Curtis, interviewed this month by NATION'S BUSINESS, says that unless we move soon to reform our federal tax system we face increasing unemployment and the prospect of a fourth postwar recession in the early 1960's. He is optimistic that such reform can be achieved despite strong opposition in Congress. His views are shared by a growing number of members of the Eighty-sixth Congress.

A representative since 1950 from Missouri's second congressional district (St. Louis), Mr. Curtis also serves on the Joint Economic Committee.

Following are the questions asked of Mr. Curtis, and his answers:

Congressman Curtis, do you believe the present tax structure is damaging economic growth and progress?

I certainly do. I feel that the last recession to a large degree came as a result of our tax structure.

To illustrate: The cutback in economic growth seemed to lie in two areas: business inventory and plans for business expansion.

Much of the cutback seemed to be in small and growing businesses which rely heavily on retained earnings. Small businesses have faced—in fact, all American business has faced—a situation where our federal tax structure, corporate income tax, plus inflation, has resulted in a capital levy.

To illustrate, depreciation allowances in the corporate income tax permit a business to take only the original cost of a piece of machinery, not the replacement cost.

Say a machine cost \$100,000 in 1940. You are only allowed \$100,000 depreciation, and yet, because of inflation, to replace that machine you need \$200,000. So American industry has to have additional capital for replacement, let alone for growth.

This is one area where I see the federal tax structure impeding economic growth.

The second area involves the impact of inflation.

The point is that our local communities, school dis-

tricts, sewer districts and so on, depend essentially upon real estate taxes for their revenues. The real estate tax in turn is based upon real estate assessments. Most real estate assessments in any county were put on the books before the inflated dollar.

The cost of wages and materials that the sewer districts, school districts and municipalities have to pay for has gone up. Their revenue has not gone up the same way. They can't adjust it by increasing the rate of the real estate tax, because all of the new real estate that has gone on the books since 1950 is measured in the inflated dollar, and you would unfairly tax them.

One way out—although politically difficult to do—is to reassess all real estate.

The second way, unfortunately the easier of the two, is to ask the federal government to help finance community facilities. Communities have to come to Washington because the tax structure impedes their growth.

Do you believe that the federal tax rate can be so high that increased rates mean less revenue?

Yes. I think this exists in many instances in our present tax structure. For instance, the \$10.50 a gallon tax on liquor, in my judgment, is largely responsible for the increase in bootlegging. If we would reduce the rate, I suspect we would get more revenue, because we would be cutting into the bootlegging industry, which pays no taxes.

Such examples are easy to understand. I feel that the rates in our personal income tax and our corporate tax also are beyond the point of diminishing return.

Rates are so high that they destroy incentive. A great many business decisions are made, not on the basis of good economic judgment, but upon what the tax effect will be.

To the extent that this is done we are interfering with normal growth and normal operation of the private sector of our economy.

I might also say this: A 52 per cent corporate tax means that the government is the major partner and business the minor partner.

If we just reduced the corporate rate to, say, 49 per cent, where business would be the major partner we would have more business decisions made on the basis of sound business judgment.

Broadening the tax base has been suggested in connection with tax reform. What would this involve?

There are many ways of broadening the tax base. The basic way is to have private enterprise performing the services and manufacturing the goods for our people. That is an important point. We have seen government going into business in a great fashion in recent years.

When the federal government goes into business, it withdraws an operation from the tax base. In 1929, to illustrate, there was \$9 in private investment for

each dollar of federal investment. That ratio has declined to a little less than five and a half to one.

But that private capital investment is essentially the tax base. If we could broaden the base back to nine, let's say, we could have a tax rate of three and a tax take of 27, but if you have a base of only five and a half, you have to have a tax rate of more than five to produce the same take.

That's one way of broadening the tax base.

Another way is by plugging the tax loopholes. Whether a tax exemption is a loophole or a legitimate exemption is a question. The word loophole actually begs the question, but I think there are areas of tax favoritism. If we equalize the tax burden, and eliminate favoritism, we will broaden the base.

Furthermore—and I am happy that the Administration has made a recommendation—some methods of doing business seem to be escaping full tax burden. For instance, the cooperative method. I am not talking about the small farm cooperatives; I am talking about these big co-ops that have gone way beyond

Member of tax-writing committee tells:

How rates destroy incentive

What broader tax base would do

Why rate contributes to unemployment

How taxes are used to regulate

any concept of the little farm co-op. The co-op method of doing business certainly should not receive the tax preference it does over the corporate method of doing business.

That would be another way of broadening the base.

Would broadening the base raise revenue?

Yes, because we immediately apply the going rate to the base. I think we can compute tax revenue in a simple formula: It's tax base times tax rate, times what I call a collectibility (*continued on page 44*)

LABOR'S TARGETS FOR THE 1960'S

All businesses will feel impact
of these new demands by unions

YOU CAN now pinpoint what unions want from business and government in the decade ahead. Organized labor's major goals loom more important than ever at this time because of the possibility that many of them can be achieved through growing political and economic power.

As a result of political successes last fall, the AFL-CIO claims to have a majority of friends in both branches of the Eighty-sixth Congress—53 of the 98 members of the Senate and 222 of the 436 members of the House.

Already labor's political leaders are looking beyond this Congress to next year when they expect to help elect not only a still friendlier Congress but also a President who will help them attain their goals of the 1960's.

Through additional protective legislation, legal immunities and a friendly federal government they hope to increase even more the economic power they now hold over many industries and individual employers at the bargaining table.

AFL-CIO leaders work to prevent another split-up while setting new goals

PRESIDENT GEORGE MEANY



WALTER P. REUTHER, AUTO WORKERS GEORGE M. HARRISON, RAILWAY CLERKS



The goals were set by organized labor's top governing body, the AFL-CIO Executive Council, in quarterly session at San Juan, Puerto Rico. It was one of the most important meetings in recent labor history because it opened a new era of labor-political influence.

The general objectives:

- From business, more pay for less work, more job security, a larger voice in business operations.
- From government, help in getting what labor wants from business, more spending, more union influence over fiscal matters, more federal control over, and intervention in, state and local affairs.

The major specifics of what labor wants include:

- A 35-hour week with no loss in pay.
- A \$1.25 hourly minimum wage now, \$1.50 later, with coverage extended to eight million more workers.
- Federally controlled unemployment compensation providing at least half pay for at least nine months—as a step toward an eventual guaranteed annual wage.
- Substantial wage increases.
- More spending for schools, housing, airports, aid to depressed areas.
- Tightening of so-called tax loopholes involving business.
- Control of profits through price restrictions.
- Labor representation on the Federal Reserve Board.
- Larger social security benefits, including health insurance and medical care.
- Revision of the Taft-Hartley labor law to increase union effectiveness and power.

To gird for this drive, the AFL-CIO is trying to put its own house in order, strengthen itself from within, become more effective and more acceptable to the public at large.

Major policy matters handled by the 29-man Executive Council can be divided into three categories: internal, relations with employers, and government.

Inside AFL-CIO

The joint labor group, after more than three years of merger, is still struggling with problems of personalities, corruption, outside rivals, jurisdictional disputes and membership.

Most of these problems were inherited with the merger. Solutions were left for later determination in the interest of expediting, and in fact achieving, merger.

These problems, which will remain for some time, reached the straining point at San Juan and tempers flared.

It is premature to assume, however, that they will not be resolved; that George Meany is about to retire as president, or that the AFL-CIO is on the verge of breaking up.

Mr. Meany, tough and gruff, can be expected to stick to his post for many years and, through skillful manipulation, keep intact the organization he was most responsible for welding together when most observers said it couldn't be done.

Personalities: Basic personality conflicts are between Council members representing former AFL unions and those from former CIO unions, with Walter P. Reuther the focal point and a source of conflict even within his own group.

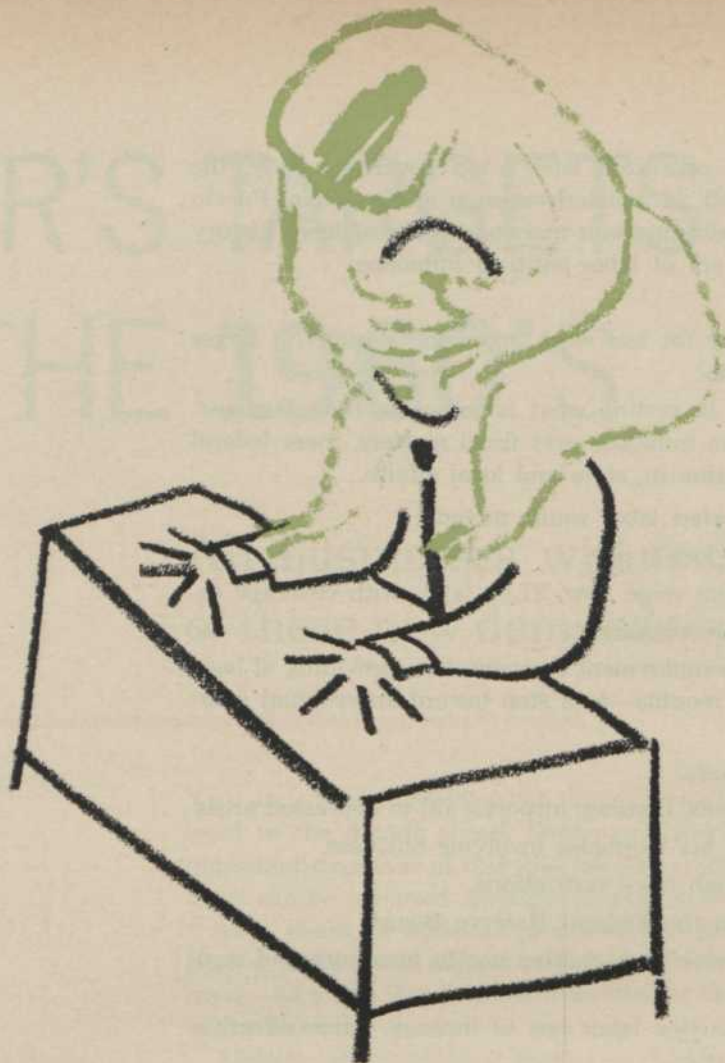
(continued on page 98)

Labor's top governing body expects more friends in Congress to assure greater success in achieving aims

EMIL RIEVE, L. S. BUCKMASTER, JACOB S. POTOPSKY,
TEXTILE WORKERS RUBBER WORKERS CLOTHING WORKERS



PHOTOS BY RANDELL, INC.



YOU CAN CONQUER MANAGERS' GREATEST FEAR

Here is a remedy prescribed
by an industrial psychologist

FEAR OF FAILURE hangs over most businessmen.

Hundreds of psychological evaluations have revealed this truth.

The fear may be hidden by an outward display of self-assurance, but its impact is profound. Business decisions based on fear rather than logic can wreck an enterprise.

Many men would not readily admit their fear of failure because to do so would be a confession of weakness. The more successful—and happier—ones, however, are able to appraise their anxieties honestly and to master them effectively. Though there are no simple or quick roads to this mastery, there are four

practices which each of us can use to his advantage:

1. Recognition: How does fear affect my actions?
2. Definition: What am I afraid of?
3. Analysis: When is my fear justified?
4. Action: How can I overcome fear?

We can use these steps with more confidence if we understand something about the nature of fears and why we have them.

Every human drive has a positive side and a negative side. When a person acts, he moves toward a goal, object or reward. Simultaneously, he is moving away from something he dislikes, or which gives him insufficient reward. This approach-avoidance characteristic of drives is evident in many different types of people.

The individual who wants everyone to like him is a common figure in our society. On the positive side,

he has a strong need to win acceptance. He also has a powerful fear of being rejected.

The man who hoards money must be goaded by acute fears about poverty. The Casanovas are examples of men with intense anxiety about their masculine prowess.

The stronger the need to win approval, save money, or woo women, the greater the underlying fear. Thus it is not surprising that some of the most successful executives are influenced by strong fears of failure.

This fear may be conscious or unconscious. It may work in the service of the person or against him. It may be stronger than the desire for success or it may play a minor role.

The fear of failure can take several different forms. Typically, as the fearful individual approaches a job, he is apprehensive because he thinks he may not do well. He throws himself into his work, often turning in a performance that is outstanding in the eyes of others while he himself minimizes his success. The next assignment mobilizes the same dread, the same fear of failure and again the person may do a fine job.

This cycle of fear of failure, redoubled effort, success minimized, fear of failure is repeated over and over.

In these instances the fear is channeled into work in a constructive fashion. The individual suffers, however, because he really does not enjoy his successes. His expectation of failure robs him of normal personal satisfaction.

The fear of failure can also be destructive. It often disrupts decision-making ability. The sales manager of a toy manufacturing concern was anxious about not doing well. It became difficult for him to make important decisions. He would try to dodge them or refer them to his superiors because he expected to be censured if he made a bad decision.

Fear is rooted in emotional, nonobjective self-concepts. A person expects to fail because he feels he is inadequate or incompetent in some ways. He views actions as failures when, in actuality, they are not. He anticipates punishment of one sort or another in a nonrational way.

Poor delegation is often a by-product of the fear of failure. Delegation is a risk since a subordinate may bungle the job. The executive feels that he must tightly control everything to be sure that nothing goes wrong.

Actually, many men rise in executive ranks at least for a while because they do not delegate. As individuals, they are unusually competent. By doing almost everything themselves, they turn in a highly creditable performance.

As these men move up, their fears of failure grow because risks increase as men go higher in management. The enlarged job demands that they delegate more while their fears can cause them to delegate less and less.

Then there is the desk-pounder who loses his tem-

per at the slightest provocation. He lashes out indiscriminately because of his fear. He punishes people when he thinks things may go wrong as well as when things actually do go wrong.

It must be pointed out that there are realistic fears and unrealistic ones. Many fears which beset the executive are not realistic. They spring from his own distorted attitudes.

Because many fears are deeply rooted in the personality, it sometimes requires professional help for the individual to develop effective ways of handling his feelings. However, there are certain guide lines which each of us can follow.

To begin with, no one tries to change unless he feels a need for a change; and no one feels a need for change unless he is not satisfied with his actions, his ability to deal with people, or his progress in his work. Personal growth begins with a recognition that certain attitudes or actions are self-defeating or not as effective as they could be in attaining one's goals.

1. Recognition

The fundamental starting point from which one learns to conquer fear is honest self-appraisal. This is not simple. We all resist taking a close, hard, critical look at ourselves. For instance, most executives are emphatic about wanting an objective and frank appraisal of their performance by their superior. Actually, they want a pat on the back. If the superior gives them a straight-from-the-shoulder analysis of their weaknesses, the majority become defensive, rationalize, make excuses, and argue about the validity of the criticisms.

This leads us to the first step in trying to recognize our fears.

We must start out by *(continued on page 64)*



On the climb to success, fear can be useful servant but dread master

HOW'S BUSINESS?

today's outlook

AGRICULTURE

Indications are for little change in total income prospects for dairy farmers in 1959. Prices may be a little lower and total milk output will resume its upward trend.

Production in 1959 is likely to exceed last year's 125.2 billion pounds and may reach the 1957 record of 125.9 billion pounds, according to the Department of Agriculture.

Weaker prices for meat animals and plentiful supplies of cheap feed are expected to slow down the decline in number of dairy cows during the past two years. The upward trend in milk production per cow (now more than 2 per cent per year) seems unlikely to change.

Assuming a consumption rate in 1959 equal to last year, the population increase of nearly three million should lead easily to an increase in total consumption and further reduce government stocks. The Department of Agriculture is buying about half as much butter and cheese as a year earlier but expects purchases of nonfat dry milk to continue at record levels through 1959.

COMMUNICATION

Considerable sentiment is building up in Congress to repeal the excise tax on communications. More than 50 bills dealing with removal of the tax have been introduced. Congressmen report that their mail heavily favors repeal.

This strong sentiment for removal

of the tax is a major reason why the Joint Federal-State Action Committee's recommendation to turn certain federal activities back to the states is having trouble. An important consideration in the suggested return of functions is a transfer to the states of revenue derived from the telephone excise tax.

Few will argue against the general philosophy of returning these functions to local government. But to finance the plan with a discriminatory and inequitable tax is subject to challenge.

Even though the recommendation includes a five-year limitation, such action would undoubtedly mean that this measure would become a permanent fixture in the tax structure. Many examples prove that, once applied, these temporary excise taxes have a way of becoming permanent.

CONSTRUCTION

Construction barometers point to 1959 as another record year.

For the eleventh consecutive year construction contracts set a new all-time high in 1958. The trend should continue. According to the F. W. Dodge Corporation, during January 1959 contracts for future construction totaled \$2.3 billion, an increase of 12 per cent over January 1958.

The U. S. Departments of Labor and Commerce jointly estimate that expenditures for construction for the first two months of 1959 totaled \$7.1 billion, a high for the period.

Appraisal requests for new dwell-

ings to be bought through GI loans showed a 21 per cent increase in January over December.

Actual applications for VA-insured loans declined in January as a result of the decline in appraisal requests during the preceding months.

The FHA, however, reports the greatest volume of mortgage insurance applications for the first month of any year since 1950. Applications received in January covered 65,700 dwelling units, a 38 per cent increase over January 1958.

CREDIT & FINANCE

The Treasury Department's financial state has become perilous. With the continuing demands for new cash, higher interest rates in the long- and medium-term area can be anticipated. This will bring a further lowering in price and will increase the yield on long-term issues now outstanding.

Most banks are loaned up. Financial institutions find the corporate, municipal and mortgage market yields more attractive than government's. Unfreezing the pegged 4½ per cent ceiling on government bonds may be proposed as one solution to Treasury debt management problems.

Bright spots on the horizon in finance remain: housing, heavy construction and consumer demand. The housing outlook is for more than one million public and private units during 1959. Strong demand for consumer durables is still noted.

JAN.-FEB. Construction spending
(Billions of Dollars)



Chamber of Commerce of the United States

Inflation control appears to worry many Washington financial officials—this may lead to further tightening of credit in the months ahead.

DISTRIBUTION

Business in the distributive trades is much better than a year ago. But any comparison of statistics must take into account last year's sluggish activity.

With personal income now running at the highest level on record, stepped up consumer buying has fanned out into all trade channels.

For one, men's wear retailers are preparing for the best spring and summer business in three years. Their expectations of sales hikes for the full year range from five to 15 per cent over 1958.

Department store sales, nationally, are nine per cent above year-ago figures. Drugstores, generally, anticipate second quarter sales to hold about three per cent above the same 1958 period. Latest reports show new automobile sales currently running about 15 per cent ahead of last year.

Meanwhile, the major price indexes hold steady. Announcing that stability of consumer prices over the past 12 months was the longest in the history of the index, Ewan Clague, commissioner of the Bureau of Labor Statistics, predicts only "small changes up and down" in the months ahead.

FOREIGN TRADE

Developing trends contrive to bring about a serious setback to United States trading relationships at a time when healthy expansion is urgently called for if we are to maintain important markets for U. S. goods abroad. Such markets are today essential as an outlet for our ever increasing volume of production. Without world markets we seriously limit the future industrial expansion of this country.

U. S. exports recently have been running about nine per cent below last year, due in part to exchange problems in other countries and outright dollar discrimination. Some observers claim also that the United States is "pricing itself out of world markets."

Congress will carefully weigh these and other factors in considering legislation on tariffs and quotas.

A high degree of public understanding is called for.

GOVERNMENT SPENDING

Although no significant actions on the President's budget have been taken to date in Congress, work is expected to begin in earnest now that the Easter recess is over. The next 30 to 60 days should bring significant actions on domestic spending bills. Defense, foreign aid and public works will probably be considerably longer in reaching the decision-making stage.

The mood of Congress is expected to be more moderate as a result of visits with people at home during the Easter recess. More economy-mindedness exists than most congressmen had contemplated. People have been stirred by several things:

The threat of inflation.

Questions raised abroad regarding soundness of the dollar.

Treasury problems of financing the public debt.

Nepotism in Congress.

The imminent financial collapse of Michigan as a result of pursuing the "liberal" economic approach to government finance.

LABOR

A 12-man advisory panel on Taft-Hartley revision named by the Senate Committee on Labor and Public Welfare is now scheduled to report to that committee by May 1.

Given freedom to select any issues it wishes to explore, the panel, under the chairmanship of Prof. Archibald Cox of Harvard Law School, has been meeting in two-day sessions every other week. The Taft-Hartley Act has undergone no major surgery since its enactment in 1947. Opinion as to how it should be changed is varied. Among the issues with which the panel is likely to grapple are secondary boycotts, recognition and organization picketing, and the retention of Section 14 (b).

The panel is to "identify the areas most in need of legislative action, analyze outstanding issues, and suggest legislative language for the Labor Committee's consideration." However, in view of the controversial subject matter involved and the composition of the panel, both a majority and a minority report could result.

NATURAL RESOURCES

Two bills to permit government agencies to issue revenue bonds are now before Congress. One would set up a Columbia River Development Corporation. The other would give the privilege to TVA.

Discussing this method of financing, the Comptroller General has said:

"We do not think that government agencies, other than the Treasury Department, should be authorized to borrow from the public for purposes of the character involved in this legislation (TVA)."

Answering the claim that revenue bonds would relieve the general taxpayer of the financial burden of annual appropriation and would provide funds without adding to the national debt, the Comptroller General has said:

"Under the proposed legislation, the borrowing authority of TVA would be outside of the public debt ceiling and, as a result, the true financial facts of the government's debt position would be obscured. . . . As a practical matter, the bonds would be obligations of the United States."

TAXATION

Before June 30, three things are certain: the Renegotiation Act, now scheduled to terminate, will be extended; the debt limit will be increased; and the corporate and excise rates scheduled to revert to lower levels will be continued without change.

In this same period the Ways and Means Committee—which has only recently completed its organization for this year's work—will be considering changes in subchapters C, J and K of the Internal Revenue Code as recommended by the Advisory Groups; the taxation of cooperatives as proposed by the Treasury; definition of the point of application of the percentage depletion allowance; the excise on local telephone service; and possibly the Keogh-Simpson proposal to help the self-employed provide their own retirement programs.

Despite the uncomfortable plight of the Highway Trust Fund, it is most unlikely the President's recommended increase in the gasoline tax will be adopted.

Present tax structure tends to cause recession, inflation, and stagnation

factor, and it's an important concept that has to be put into the formula.

Our tax collection system is essentially a voluntary one. Our people cooperate in paying taxes. But when the tax rates become burdensome, we find this factor of collectibility becoming less and less.

So we gain from increasing the base and reducing the rate, and collectibility is increased.

Will more business incentive be created if the base is broadened?

Yes, because there is more equity. People are willing to put up with burdens if they think everyone else is carrying the same burdens. That bears on incentive.

If rates are not reduced, do you believe economic growth will be stunted?

I think economic growth is being stunted.

In Western Europe since 1952 the rate of economic growth has been almost twice that of the United States. I believe our tax structure is the primary villain.

I would predict that we are going to have more of this slowing down unless we revise our tax structure.

Do you see recession as possible in the near future?

Not in the near future. It is likely that 1959 and 1960 will be the most prosperous years we have had. But I see in all of this the seeds of future recessions because of the burden being placed upon incentive and capital formation.

Furthermore, I see the seeds of more inflation. As we have more inflation, the impact I have previously described upon business investment—replacement of capital assets—and upon municipalities in areas important to economic growth will be felt.

I might mention a third area that is causing stagnation. That is this so-called locked-in investment. It's a result of inflation. A holding of common stocks worth, say, \$100,000 in 1940 is now worth \$200,000 in the deflated dollar. If a person sells, he is subject to a 25 per cent capital gain, although it's a fictitious

gain. As a result people do not sell. This investment should be turned over constantly as individuals decide what is a better investment.

If we are going to have more inflation, locked-in investment will be further accentuated.

Does the high tax rate contribute to the unemployment rate?

There is no question that it does.

Jobs come from economic growth. When there is economic stagnation, you don't have new jobs. Furthermore, as we advance technologically, and can do more with fewer people, we must find new jobs for those who are displaced.

To do that, we need capital investment. The only place we get new products, really, is from money

.....

For a comprehensive analysis of how

"Rising incomes will change markets"

see page 31

.....

invested in research and development. That means more jobs all along the line.

Are taxes being used for purposes other than raising revenues?

Yes, and to me it's one of the most dangerous things in our tax structure. The higher the tax rate, the more economic effect it has.

Through high tax rates you can actually control the economy. It's a great temptation for lawmakers to use the tax structure for producing supposedly desired social objectives.

I see more of that every day in the Ways and Means Committee where we should be thinking primarily in terms of revenue.

Would you predict whether taxes will be used more and more as regulatory devices?

If I predicted that, I would be saying that my own work will not be successful, because I am fighting it. But let me put it this way: The forces I see in motion to bring about the use of the tax structure for regulatory reasons are strong. Unless more people take the view I do, it's going to be used more and more to regulate.

Would many men in government like to keep tax rates high to hold on to the tax power to regulate?

I feel that some would. I don't think they are a large group, but they are an astute group.

By increasing the tax rate, you can stunt growth and the private sector of the economy is unable to administer to the people's social needs. That in turn creates pressure for the government to perform these services. As government does more for the people, more taxes are needed. This is a vicious circle.

These people would like to see the tax base narrowed?

I think they demonstrate they would prefer to see it narrowed. Any time they can get the federal government to do something that private enterprise was doing before, they will do so.

The tendency of this group is to go to the government first to solve problems, instead of trying to see if we can solve them through the private sector.

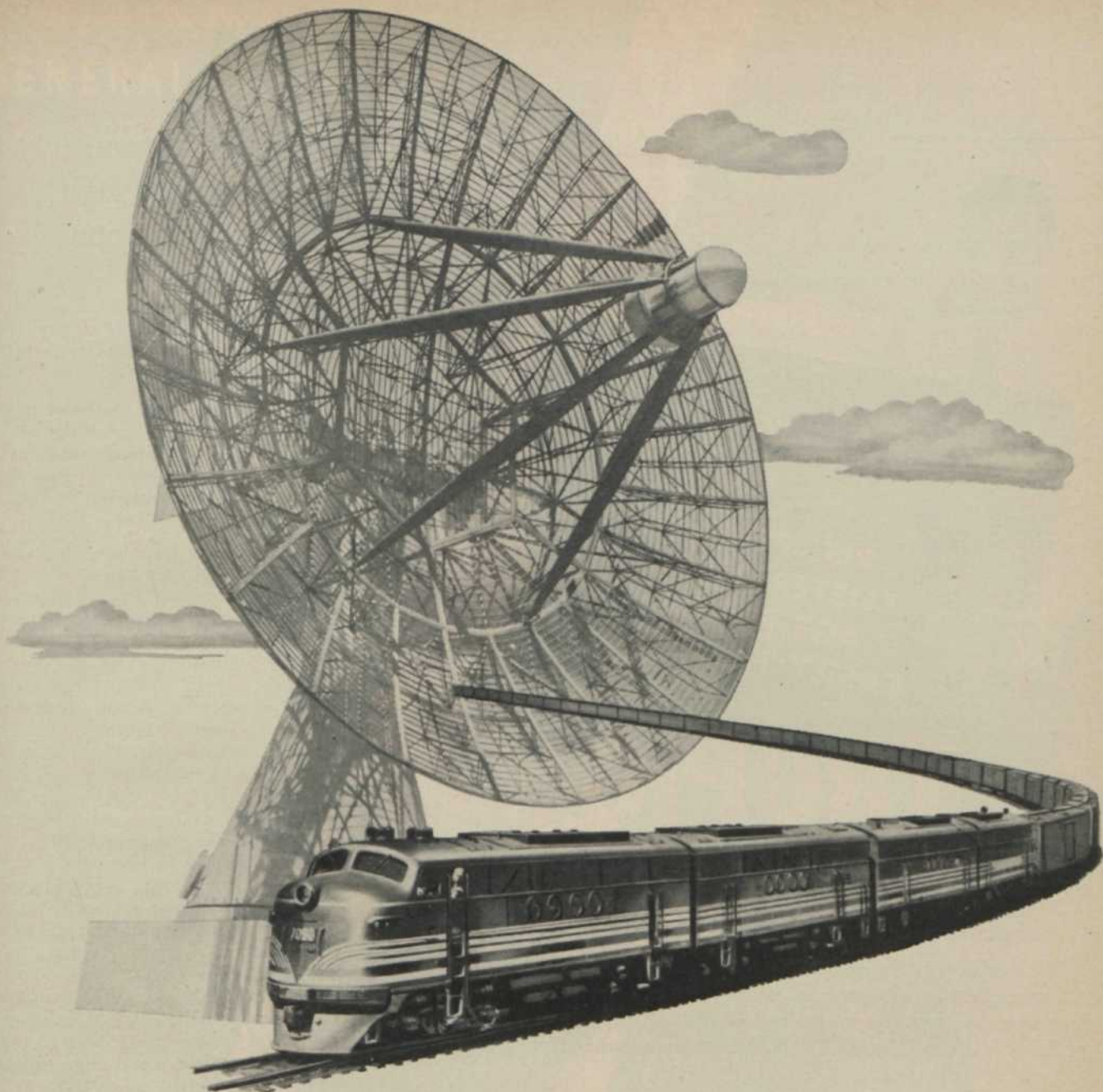
If we can do the job through the private sector, we keep it in the tax base. If we do it through government we remove it from the tax base and at the same time have to raise revenue to meet the cost of those social needs.

Can you expand this idea of using taxes to control the economy?

Let me give you a good example.

During and after the Korean war certain defense industries were granted certificates of necessity to let them write off the cost of new facilities at a faster-than-usual rate. What would a certificate of necessity mean if the tax rates were low? With the tax rates high, to be able to amortize some new equipment rapidly is of tremendous value. So just by using certificates of necessity you can funnel tremendous sums into a given area or take them away.

Maybe the certificates of necessity are examples of things where the immediate economic results are



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HIGH TAXES

continued

**Job creation
comes through
tax reduction**

good. On the other hand, clearly they illustrate the use of the tax structure to obtain what the government thinks is needed.

If, in the judgment of these people, the GNP is expanding at a rate which they consider too fast, all they have to do is to raise the taxes and slow it down?

That's right.

If it is going too slow, they can lower rates and speed it up. In fact, they are before our Joint Economic Committee all the time urging exactly that. Last year they urged that we give tax reductions across the board.

I didn't think that tax reduction was a good idea at the time, because they were thinking of tax reduction in terms of the consumer dollar. I said the way you get jobs for people is tax reduction in the investment dollar area, putting money into economic growth.

If we wanted to help the people who were hurt in the recession, we would have been thinking in terms of tax relief that would create jobs. I sponsored a small business tax bill that would have done exactly that. My bill said that the only basis upon which small business could get a tax credit was to put that money into economic expansion, which meant more jobs.

Will increased taxes on insurance companies retard their growth?

That is the key issue, in my judgment, particularly as we have the federal government going into the same field of providing for the retirement and disability of our people, through social security.

If we stunt the insurance industry through taxes heavier than the industry can bear, it cannot go ahead in providing for the retirement and disability of our people, the premiums charged the people will have to be too high. That will create pressures on Congress to provide protection through the treasury.

Will revenue raised in this manner be significant?

Yes. We are talking about possibly increasing the tax on life in-

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HIGH TAXES continued

insurance companies from about \$300 million to more than \$500 million.

This would have a far-reaching impact on the insurance companies, but no particularly significant impact on total federal revenue.

But this \$200 million could ultimately cost the Treasury more than we would take in.

Pressures already are great on the federal government to expand and increase social security benefits. If the insurance companies don't continue to expand, the pressures will be such that the federal government will extend social security benefits.

Another thing—and this is a collateral issue but nonetheless important—the states have been permitted to use this industry as a method of raising revenue. States have been getting almost \$300 million out of insurance companies through premium payment taxes. I have urged the Treasury Department and the staff of the Ways and Means Committee to bear that in mind, because we have to figure the total tax burden that we place upon any industry, not just that at the federal level.

Do you consider social security in competition with the insurance companies?

Yes, and the more we raise the wage ceiling on which the social security tax is levied, the more it gets into the field that our private insurance companies are in.

Do you expect this kind of competition to increase?


I hope that it will decrease, but the pressures are such that it will probably increase.

Not enough people recognize these dangers.

The challenge is certainly there. In my judgment it does no good to talk about belief in private enterprise unless a person is willing to get down to details, analyze what private enterprise is, and then fight for it.

Do you expect social security benefits to be broadened further?

Yes. I think there is sufficient pressure in this Congress to do it. I hope if we increase benefits we can increase social security taxes. This is the only way we can keep the social security fund solvent. I regret to say the history of the Congress, though, isn't so good. You



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Federally owned businesses cut the tax base and increase general taxes

will find only two or three instances where congressmen had the courage to increase the social security tax as they increased the benefits. As the tax gets higher and citizens begin to feel the bite of it, Congress is going to be even more reluctant to vote increases.

I question whether we really can be complacent about the solvency of the social security fund.

Inflation also robs the social security fund. Therefore, all people who are counting on social security in their old age need to resist inflationary pressures.

For the years ahead, do you expect the user tax concept to be broadened?

Yes, it is being broadened. Increasing user taxes I see as a good method of handling some of the cost of government. After all wherever it is feasible we should have the people who use a particular government service pay for the use. If we can increase user charges we will then be able to reduce the general tax rates.

How do you think government corporations and institutions such as TVA ought to be financed?

I question whether many of them should be in existence. TVA started out as a flood control project involving dam construction. Some hydroelectric power would be available from the dams, and it would be economic waste not to use it.

Then it was found that hydroelectric power fluctuates seasonally. Because power users have to have a constant source of power, TVA requested permission to build steam plants to supplement hydroelectric power. Now we find that 70 per cent of the power generated in the TVA is from steam.

Here is a good example of the federal government being in a business that is not in the tax base.

I am suspicious of any government corporation and feel that the existence of each one should be openly and fully justified.

But you asked me how they should be financed. I suspect that few of them should be financed other than in the private sector of the economy.

Do you see any danger in the use of earmarked taxes?

I see a grave danger. We think highways are important, so we earmark taxes for them. We think retirement of our people is important, so we earmark social security taxes for them. We think unemployment compensation is an important social function, so we earmark taxes for that.

You can go down the list of things that are important in our society, and start earmarking taxes, and you will end up without sufficient taxes for the one thing we know our federal government must provide—adequate defense. If we keep on with the earmarked tax formula, we can easily get to the point where we will have inadequate funds for defense.

Although I said that I thought user taxes were good, let's not forget that it's easy to convert a user tax into an earmarked tax—I shouldn't say user tax; user charge is a better expression.

What principal danger do you see in the growing federal debt?

The principal danger is its inflationary effect. The federal debt is additional credit imposed upon our economy. It simply means more money, and if you have excess money in a given economy, you are going to have inflation.

Is inflation inevitable?

No. I think that proper fiscal policies can keep inflation from coming about. I think we can have stability, but I think the only way to achieve it is through proper federal budget and debt management. We are going to have to pay off some of the federal debt. It's too large now, and it is the primary inflationary force in our economy today.

Can we pay off some of it in the foreseeable future?

The budget we are considering now is based upon the prospect that 1959 or 1960 will be the most prosperous years in history. Yet we are not reducing the debt.

Surely if we can't do better than that in our most prosperous years, we will have deficit financing again when we get a less prosperous year.

The only way to reduce the debt is to put a certain amount in the budget each year to be paid off.

Would reduction of the corporate tax rate bring in more revenue?

I am convinced that if we reduced it, say, to 49 per cent, it would increase the revenue. It would increase incentive. More business expenditures would be based on economics than tax consideration.

Would anything be gained by granting tax exemptions for retained earnings plowed back into capital investment?

Very much, particularly in the area of our smaller and medium-sized businesses.

We get our basic economic growth from small and medium businesses. Traditionally they finance growth through retained earnings.

If we will permit our businesses to retain a certain portion—not all of it, just a tax credit for what they put back into economic growth—we are going to create more jobs. That is what economic growth is.

I suggest a third area which is almost as important. Stop uneconomic mergers and acquisitions, where big companies buy up small companies—to a large degree because of the tax structure, and because these smaller concerns, through their inability to finance growth, are helpless.

I am satisfied that this would do more to stimulate healthy economic growth and bring in more federal revenue than eliminating the tax loopholes, important as that is, too.

Do you expect Congress to grant tax deductions for the cost of higher education?

I hope so. The budget already includes an expense item for federal aid to education for loans, scholarships, and so forth. We are already spending the money. I suggest: Instead of the federal government spending it and setting up a bureaucracy to figure out how to spend it, let's grant a tax deduction to families willing to send their children to college. It doesn't matter from the standpoint of a balanced budget whether we decrease income by \$200 million, or whether we increase expenditures by \$200 million.

I suggest you get more education from allowing individuals to spend the \$200 million than from letting the government spend it.

Will the depreciation laws be liberalized?

I am afraid they won't. They



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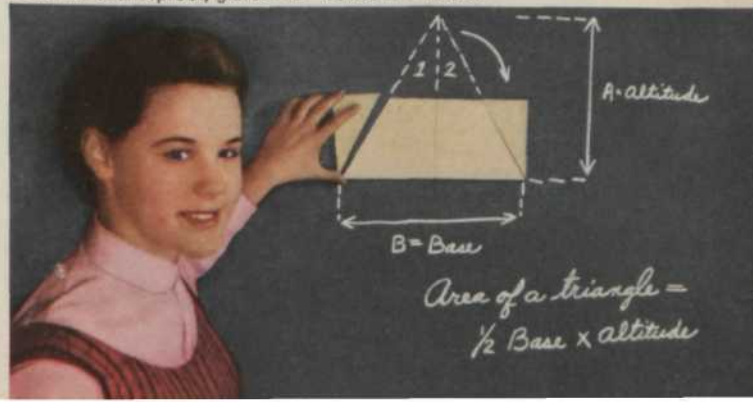
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HIGH TAXES

continued

should be, in my judgment. We need liberalization for two reasons. First, the impact of inflation is still heavy. Actually we have a capital levy assessed against American business. Second, in today's rapid technological advancement, a machine is replaced not because it's worn out but because a better machine is developed.

Will laws involving expenditures for research and development be liberalized?

No. I wish they would be. The federal government is spending increasing sums directly for research and development. I suggest a more efficient way of spending money is to grant tax deductions for research and development.

Do you expect the principle of tax averaging to be extended to individuals?

No, but it should be. That would again help economic growth.

Will the tax exemption features of retirement programs be extended to self-employed individuals?

I'm afraid not. I regard this as a shortsighted attitude toward all of these proposals for letting the people rather than the federal government spend the money.

There is tax exemption for corporations providing for the retirement of people, but this same privilege is not extended to individuals who work for themselves. If this unequal process is continued we will badly damage the professions.

What is the prospect for tax reform in the foreseeable future?

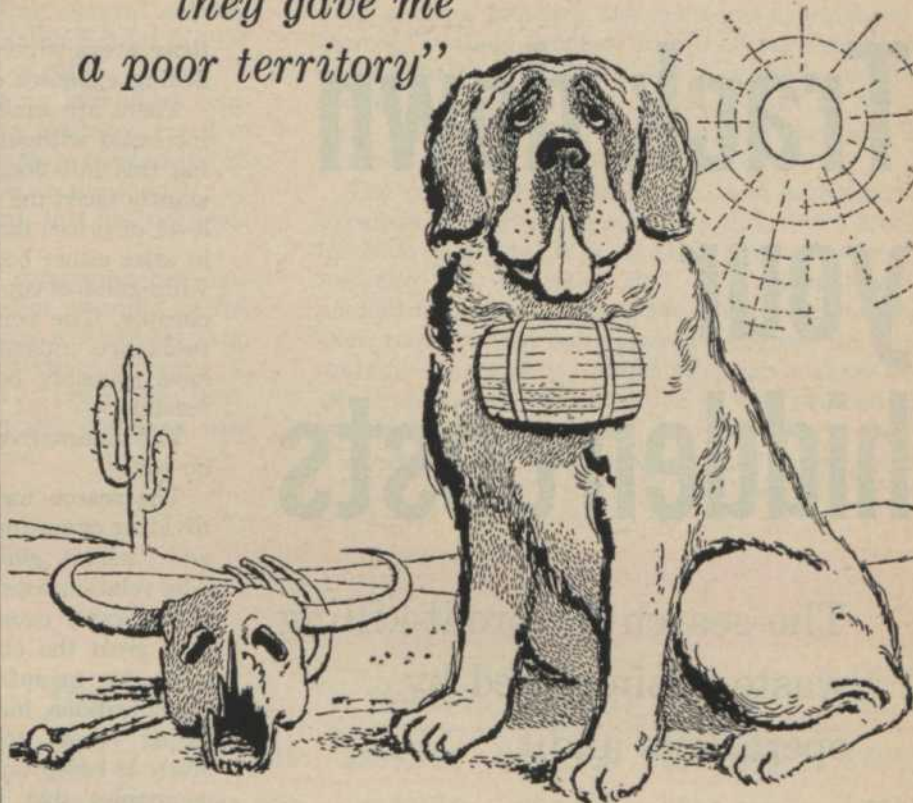
It won't be good until, in my judgment, more people realize that taxes have economic effects, and that we must evaluate our tax laws in terms of economics. We cannot keep the short-range view of looking at specific taxes and saying our revenue depends on the tax rate.

The tax formula, I repeat, is revenue as the result of the tax rate, times the tax base, times the factor of collectibility. If more people will only agree that this is the formula for revenue, we might get somewhere toward a real fundamental tax revision.

I am optimistic that as time goes on more people will understand the basic reasons for economic growth. Then we can move toward real progress.

END

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they gave me
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COMING MONTHS will find more companies making a concerted effort to reverse out-of-balance increases in their selling, general and administrative expenses.

How effectively they act to bring such costs under tighter control will go far to determine their ultimate profit and market position in 1959 and, more importantly, in the growth years which lie even farther ahead.

Business authorities are stressing the urgency of achieving more efficient control of nonproduction costs. Example: In a *NATION'S BUSINESS* interview published last October, Prof. C. Northcote Parkinson, author of the provocative book, "Parkinson's Law," identified the need for more realistic analysis of administrative costs as perhaps the greatest current problem facing managers.

The choice which most managements face is simple, if harsh. Either they must reduce their administrative and selling costs, or raise prices to offset continuing declines in profit margins. The former is clearly the more desirable course of action.

To implement it, management must proceed along these lines:

- ▶ Recognize the need for better control of selling, general and administrative expenses.
- ▶ Select a basis for establishing the reasonableness of current and future expenditures.
- ▶ Carefully audit its entire operations in order to find

those areas which offer the greatest potential for reducing expenses or effecting improvements.

There are limits to the extent that prices can be increased without seriously impairing demand. During this inflationary period managements have constantly faced the delicate problem of determining the level of prices that would not invite undue reduction in sales either because of consumer resistance or the willingness of competitors to supply the product more cheaply. The periodic recurrence of consumer price resistance indicates that prices for many products have probably been increased as much as may be feasible.

The alternative is to find places where costs can be cut.

The search for such places will be simplified by dividing operating expenses into "cost of goods sold" and "selling, general and administrative expenses." The relationships between these costs have changed considerably over the past few years. To determine how great the change has been, a compilation was made for manufacturing companies in 23 industry classifications, including all manufacturing and processing except the publishing of newspapers. The study is based on operating reports of representative companies that, combined, conform with industry percentages developed on a quarterly basis for the years 1952 and 1953 by the Securities and Exchange Commission and the Federal Trade Commission.

See chart opposite

The increased percentage of cost of goods sold to sales in 1957 reflects in part the declining volume of sales in the fourth quarter. Volume in that period dropped off much faster than manufacturing costs were reduced. This condition can be expected to be reversed as business recovery develops the opportunity of spreading fixed and overhead elements in these costs over larger volumes.

The decline in volume in the fourth quarter also accounts for some of the increase in the percentage of selling, general and administrative expense to sales in 1957. But this should not be allowed to hide the fact that these have shown a continuing upward trend over a period of years. The dollar amount of these expenditures between 1950 and 1957 almost doubled, while sales were increasing by 60 per cent.

Analyses of individual companies indicate that relatively few have maintained or reduced the ratio of these expenses as sales volume has increased.

One of the problems faced by individual managements has been the absence of satisfactory standards of comparison with other companies to highlight those costs which are badly out of line. This is emphasized

by the fact that the average selling, general and administrative expenses for individual industries in 1957 ranged from 6.2 to 28.7 per cent of sales.

Seldom has the experience of an individual company conformed exactly with the indicated trend of costs for its own industry. Although in most of the 23 industries the trend of these costs in the industry as a whole has been steadily upward, this has not been true of all industries.

The experience of individual companies has also varied widely within industries. For example, in the same industry, one major company reduced its ratio of selling, general and administrative expenses to sales from 7.7 per cent in 1950 to 7.3 per cent in 1957, while like expenses for a comparable company rose from 7.0 per cent to 11.3 per cent.

In another industry one company experienced an increase in these expenses from 17.3 per cent of sales in 1950 to 23.4 per cent in 1957; a similar company showed a reduction from 23.7 per cent to 13.8 per cent. The indicated ratio for the industry was 16.1 per cent in 1950 and 17.4 per cent in 1957.

The control of selling, general and administrative expenses, therefore, is basically a distinctive problem for each company. It is an area, however, where experience has indicated that most companies can achieve important savings. True success in this, however, requires that management recognize the nature and importance of the problem through analysis of the situation and skillful execution of well planned, constructive action.

Managements which move to bring selling, general

Consolidated operating results of all manufacturing companies (in millions of dollars)

	1950	1951	1955	1956	1957	% CHANGE 1950-'57
<i>Sales</i>	\$200,117	\$244,365	\$285,151	\$307,256	\$320,039	+60%
<i>Cost of goods sold</i>	153,075	188,699	218,261	236,065	246,754	+61%
<i>Selling, general expenses</i>	23,065	28,685	38,771	42,449	45,906	+99%
<i>Operating profit</i>	\$ 23,977	\$ 26,981	\$ 28,119	\$ 28,742	\$ 27,379	+14%
AS A PER CENT OF SALES						
<i>Sales</i>	100%	100%	100%	100%	100%	—
<i>Cost of goods sold</i>	76.6	77.3	76.6	76.8	77.1	+0.5%
<i>Selling, general expenses</i>	11.5	11.7	13.6	13.8	14.3	+2.8%
<i>Operating profit</i>	11.9%	11.0%	9.8%	9.4%	8.6%	
						-3.3%



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YOUR HIDDEN COSTS

continued

New methods may
make old figures
useless now

and administrative expenses into suitable relation to their sales volume face the problem of selecting a basis for establishing the reasonableness of current and future expenditures. In general, two means of establishing such standards have been followed:

First is a comparison of current expenditures with the volume of similar expenditures in some earlier period.

Second is a process usually referred to as an operations audit, which is basically a determination of what activities are essential to successful performance, and the expenditures that are required to perform them.

Historical comparison

Many executives point out that historical data have value as a basis for specific action only if they can be accepted with assurance that functions such data measure have been performed as well as they should have been.

It is also pointed out that historical data fail to reflect changed conditions or the manner in which individual functions are or should be performed.

A recognized danger of acting solely on the basis of historical figures is the tendency to apply pressure to isolated surface conditions because of the existence of certain evident symptoms, without at the same time correcting underlying fundamental conditions which are the real cause of the problem. There is also a risk of upsetting the balance between various functions and departments within the company.

The constantly changing conditions of doing business may also invalidate historical comparisons as a good basis for taking specific corrective action. In few companies do the basic elements of cost arise from the identical circumstances which caused them 10 years, five, or even a year ago.

This is particularly true in companies that have experienced substantial growth or diversification in recent years.

Executives also point out that or-



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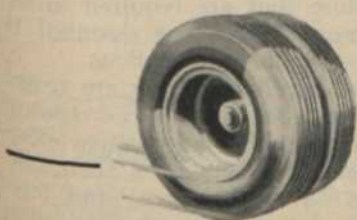
Courtesy is one of a number of basic subjects

given top billing in truck driver training programs all over America. In addition to helping stranded motorists, it involves the conscientious use of signals, giving the other fellow the right of way, maintaining the proper mental attitude.

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TRACK DOWN YOUR HIDDEN COSTS *continued*

Detailed checks may show elements that need to be brought up to date

ganization structures and operating practices that were once entirely adequate and satisfactory no longer may be effective after a company has grown.

In spite of their dangers and weaknesses, historical data have recognized value as guidelines for determining the broad problem of where unnecessary costs exist, or to identify the general areas contributing to them. Those who have relied upon historical data as a base beyond this point indicate an unwillingness to repeat their experience.

Operations audit

Managements have turned increasingly to use of the operations audit as a means of revealing specific areas offering greatest potential for reducing expenses or for improving operations.

Such audits have come to include the determination and analysis of those functions that are essential to the company's competitive position, how each of these functions should be performed to attain maximum enduring benefits, and a reasonable cost for performing each of these essential functions in a manner consistent with sound business practices.

The basic approach to a successful operations audit has been similar in each case, although details vary to fit the requirements of individual companies. Fundamentally, these activities are characterized by:

1. Determination of the facts that have a bearing on the activity under review.
2. Analysis of the facts to ascertain their implications.
3. Recognition of the necessity for interrelationships and interdependence of various company activities.
4. Development of a constructive plan of action.
5. Implementation and execution of the plan.

Emphasis has been primarily directed toward determining the "essentiality" and "effectiveness" of the elements included in each activity, and the extent to which present operations meet the requirements of the company and contribute to profits. Each element is further considered from the viewpoint of how

it might be performed better to meet present and anticipated conditions, be fully competitive, utilize improved methods, and meet practical limits of minimum cost.

Although not all-inclusive, typical elements which have come under scrutiny in some of the operations audits include:

1. Market requirements for the company's products.
2. Attitudes of the customers and prospects toward the company with respect to its sales efforts, product line, policies and practices.
3. Size, type, and character of the sales organization required to meet customers' requirements.
4. Effectiveness of company objectives, policies, and practices in relation to expenditures for selling, and general and administrative expenses.
5. Organization structure and personnel required for effective operations, control and administration.
6. Requirements for, and effectiveness of, selling, general and administrative controls.
7. Suitability and effectiveness of selling, general and administrative incentive compensation and personnel standards.
8. Requirements for, and effective functioning of, the company's internal communications.
9. Effectiveness with which interrelated activities are coordinated.
10. Nature of management personnel development required and effectiveness of training efforts.

11. Costs of existing and required policies, practices and procedures.

The elements to be included in the audit have been determined by their importance in relation to the specific problem. In cases where the operations audit has been intended to cover a more extensive area than selling, general and administrative expenses, the scope of the elements is expanded to include other considerations. The only facts sought are those that are required to determine the activities essential to achieve company objectives.

The determined facts are tested and appraised with a view toward establishing the competitive effectiveness of the practices, their suitability to meet current and foreseeable future demands, and their

cost. Also important in this phase is comparison of the effectiveness of the company's practices with those followed by competitors and other companies. Each activity is also viewed in light of its interrelationship and contribution to other necessary activities.

Implementation of the indicated changes often has been difficult because of its bearing on individuals, some of whom feel they have personal interests to protect or are motivated by long-standing habits.

For this reason, basic changes cannot be made solely by edict from the top. Demonstration, persuasion, and education are required through all levels, together with continual supply of information that will both advise managers how well they are

doing and help them do a better job. As this course is followed, involved personnel know why they have been asked to change habits and practices and, therefore, direct their individual efforts more effectively toward the realization of company goals.

Individual experiences have demonstrated that a successful company-wide operations audit requires top management to conduct the activity directly or through qualified representatives who are detached from all other duties or available as professional consultants. This is essential to assure that each function is reviewed on the basis of what is best for the company rather than for any department or individual, and to facilitate the frequently

encountered need for crossing departmental lines.

Many managements which have successfully made use of the operations audit to reduce the selling, general and administrative expense ratio of their companies have been surprised by the number of collateral benefits, such as increased sales volume, improved morale, strengthened competitive position, reduced personnel turnover, and others.

Illustrative of the approach and accomplishments attained by many companies is the experience of one with annual sales volume of more than \$800 million. It had shown a substantial growth in both sales and profits over a period of years, but its selling, general and administrative costs had grown faster. These

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YOUR HIDDEN COSTS *continued*

Proper integration
of sales activity
gets good results

expenses were getting out of line in comparison with other companies in the industry, and creating a serious threat to the company's future competitive strength.

The operations audit was instituted under the president's personal direction.

The findings revealed that the organization structure had become outmoded. Some executives were overloaded with detail. Others had set up committees, assistants, and additional layers of supervision until it was unclear who was responsible for any specific activity. Some areas of the company had been expanded out of balance with their true importance because of the internal influence of their respective managers.

The primary consideration of the new program developed after the audit was a fundamental revision of sales department organization structure to accord full recognition to the activities essential to meet the requirements of customers and the activities of competitors. It further provided for a defining and fixing of responsibilities, delegation of appropriate authority, proper integration of sales activities, elimination of duplication and overlap in functions, and provisions of logical channels for individual development and progression.

The program also provided for the installation of more effective sales controls, realistic budgetary schedules, and improved commercial research. A redistribution of functions between home office and the field increased sales effectiveness and reduced costs.

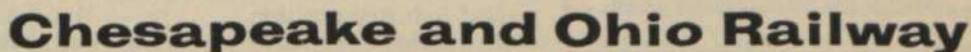
The program was explained to the management personnel involved and then put into smooth motion. Realized savings were calculated to approximate \$2 million annually, or about five times the estimated combined cost of the audit, the program development and its installation.

In addition, sales volume was increased more than 50 per cent with addition of less than two per cent in sales personnel within a period of four years, morale was markedly improved, and the ratio of selling



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expense to sales reduced below that of major competitors. Accompanying these direct benefits, the company has enjoyed improved net earnings, broad recognition as a leader in its industry, and investor recognition of management's ability through a high price-times-earnings ratio for its stock.

In another instance, a medium-sized company, offering three basic lines of products, found itself with a high ratio of selling, general and administrative expenses to sales, and increasing losses despite a relatively constant level of sales volume.

An operations audit disclosed that the company had been devoting an increasing amount of its resources toward research, product development, selling and new facilities for a line which was experiencing and could expect to experience increased market resistance and narrowing profit margins.

Action taken on the basis of facts reduced sales volume by 50 per cent through the dropping of the hopeless product line. Appropriate cutbacks were made in all other activities affected by this action. As a result, selling, general and administrative costs were brought into a competitive relationship to sales, substantial net profits were restored, and dividends were resumed after having been passed for nine years.

A third company found that growth had so centered management in its home office that practically no decisions could be made in the field. As a result, competitors were making important inroads, field morale was low, and inordinate amounts of time and money were being spent for travel, communications and personnel performing duplicate functions.

Organization structure was revised, authorities and responsibilities redefined and delegated, management controls established, and policies and practices generally revised. The immediate results were reflected in a reduction of selling, general and administrative costs from 12.7 per cent to 10.2 per cent of sales, an improvement in morale, increased sales volume, and an improved industry position.

In another company, executives had struggled to preserve the in-

formal relationship in which they had grown up. Substantial growth had taken place and the sales force had been increased by more than 200 per cent in a relatively short time. Selling expenses had increased at an even greater rate. An operations audit of sales activities showed that individual salesmen, not sure of who was responsible and for what in the home office, frequently drove to the company's plants to expedite their own orders so that their customers might receive competitive service.

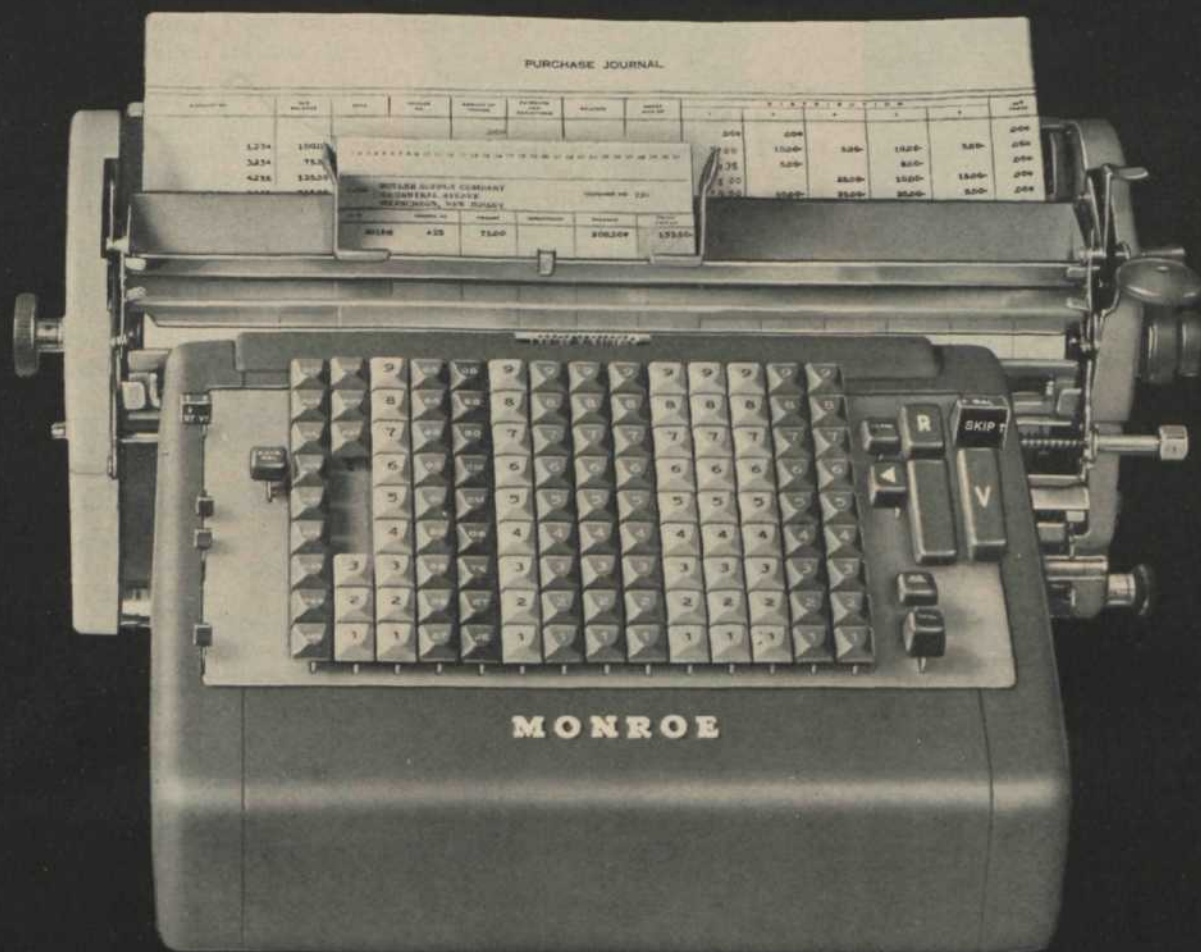
The audit convinced management of the need for a formalized organization structure. In addition, a central expediting service was provided, and suitable controls were established. Almost immediately, a happier sales force directed its full attention and available time to selling, with the result that greater sales volume was obtained for a lesser travel expense, and the plants attained a generally higher competitive level of service.

The substantial and continued growth in selling, general and administrative expenses represents a serious threat to the future profits and positions of many companies. The tremendous increase in demand for products during the last 18 years has tended to focus management attention on the problems associated with providing means for expanded production. This has been successfully accomplished. The control of selling, general and administrative expenses has not kept pace. The experience of resourceful managements attests to the fact that an equitable relationship of these expenses with sales volume not only can be achieved, but that the basis and environment for more rapid and profitable realization of opportunities can be established despite increasingly competitive markets.

—JUDSON H. F. TURTON
& EDGAR C. BLEICK
Turton Associates, Inc.
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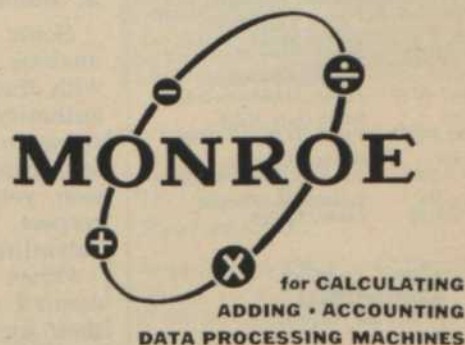
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Epitaph for Disaster

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YOU CAN CONQUER FEAR *continued from page 41*

After defining and analyzing a fear, action may be taken to counteract it

critically evaluating situations and seeing how fear may have influenced our actions. Situations which often produce fear are highlighted in the following questions.

Did I fail to make a decision because I was afraid of being wrong?

Was I reacting to some fear the last time I got hot under the collar?

Am I more concerned than I should be about delegating because I fear the risk involved?

Do I avoid contact with people up the line because I am awed by them?

Do I expect failure before I start on a project?

Do I underestimate the successes I have had?

Am I jumpy and tense in some situations when I really should not be?

Deep down inside, do I feel guilty and undeserving when someone praises my effort?

Am I bothered by the fear that someone else may get my job?

When my work is disorganized and follows the shotgun approach, is some fear troubling me?

Remember that we are trying to discover our fears and to determine what particular situations precipitate them. We must avoid making excuses or explaining our fear by blaming it on circumstances.

We are not interested in the circumstances. We want to shed light on our own feelings and reactions which may hamper our effectiveness.

Once we learn to see that we acted out of fear, perhaps without realizing it, the next step is to see what particular situations precipitate our fears.

2. Definition

Some executives are primarily anxious about their relationship with their boss or other people in authority. They are jittery in the presence of the top brass. They are struggling to make a good impression, yet the boss is likely to lose respect for the obviously fearful subordinate.

Other men are secure and self-assured in their relationship with their superiors but apprehensive in dealings with subordinates. These men usually protect their relation-

ship with the top official by denying their subordinates access to him.

Fear of failure does not operate evenly across the board. Some situations engender more fear than others.

However, fears are closely tied to interpersonal relationships and can be defined more clearly by isolating various categories of relationships to see which one is more likely to stimulate fear.

Interpersonal relationships can be boiled down to a two-party interaction.

In an industrial setting, they can



be categorized according to the status of the other party. Thus they can be defined according to our relation with:

- Our boss, people at his level or above.
- Our peers or people on a comparable level.
- Our subordinates or those at a lower level.
- Contacts outside the company.

Which of these relationships causes you the greatest concern, worry, doubt or anxiety?

We must realize that many people are not as fearful in dealing with a single individual as in dealing with a group. A manager may be relaxed in dealing with a single subordinate but in staff meetings he may feel under pressure because he is frightened by any act which questions his leadership.

Now we have: 1, recognized that fear has influenced some of our actions in a detrimental way and, 2, tried to pinpoint specific areas or

relationships which cause us the greatest concern.

3. Analysis

The third step is to sift out the rational fears from the irrational, self-generated ones. Fear springs in part from the unknown, from ignorance. Since it is often difficult to know how other people think of us or what they expect of us, we continually second guess them. Our guess is manufactured from our inner needs and past experience.

One of the major ways to combat the fear of failure is by a continual, detached assessment of situations by separating subjective judgments from objective facts.

Separating fact and fantasy will help us attain a proper perspective of our capabilities as contrasted with people at higher levels. A man who is now vice president of operations in a large electrical manufacturing firm was unsure of himself and lacked confidence at one point in his career. He happened to participate in a seminar where virtually all the other members were at a much higher management level. He began to see that these men were not as free from weakness as he imagined them. This helped him in overcoming his fears.

Sometimes a man is afraid to speak up in a conference because his ideas may sound silly, someone else may have a better idea, or the ideas are not thought out well enough for presentation. He imagines or expects a negative response.

When other group members volunteer the same idea he had, and no negative response is forthcoming, he begins to see that his fears were not justified. Brainstorming is a technique that helps to overcome such fears.

What if the fear is appropriate? Certainly some fears are justified. Then the paramount questions are "What constructive action can be taken?" and "Am I adapting to the situation?"

A regional sales manager in Pittsburgh was constantly afraid that his field salesmen would make serious mistakes in handling some of the big accounts. In part, this fear was realistic. Serious mistakes were possible. In this situation three steps were taken.

First, the manager had to do all he could to prevent a mistake from being made. The sales personnel were given intensive training.

Second, the manager had to formulate a plan of remedial action if he saw things getting out of hand.

Third, he had to recognize that



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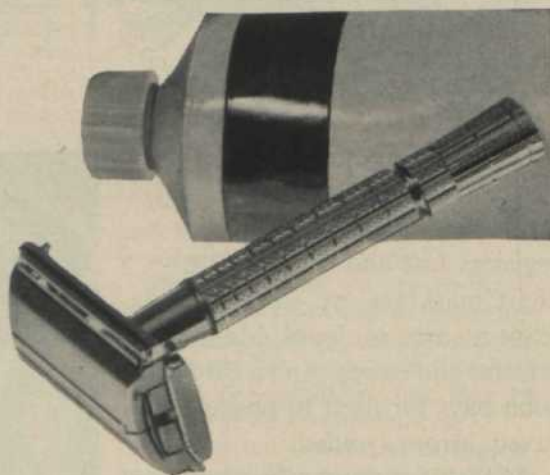
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CONQUER FEAR

continued

worrying about the situation was fruitless.

Many events are beyond our control—the drunken driver of a car may run into us or an atomic bomb may be dropped near where we live. We must learn not to worry about what we can't control.

4. Action

The final step in mastering fear is to translate the analysis into action. Once we have recognized the influence of our fears and analyzed their subjective components, we are in a position to do something.

Inaction is more detrimental than too much activity. The person who is afraid and does not act never has an opportunity to learn and to live through a frightening experience which helps him to master his anxiety.

For instance, the man who is afraid to drive a car, to get married, to buy a house, or to invest money in stocks, may never try to drive, marry, become a property owner or an investor. To conquer fear, one must act.

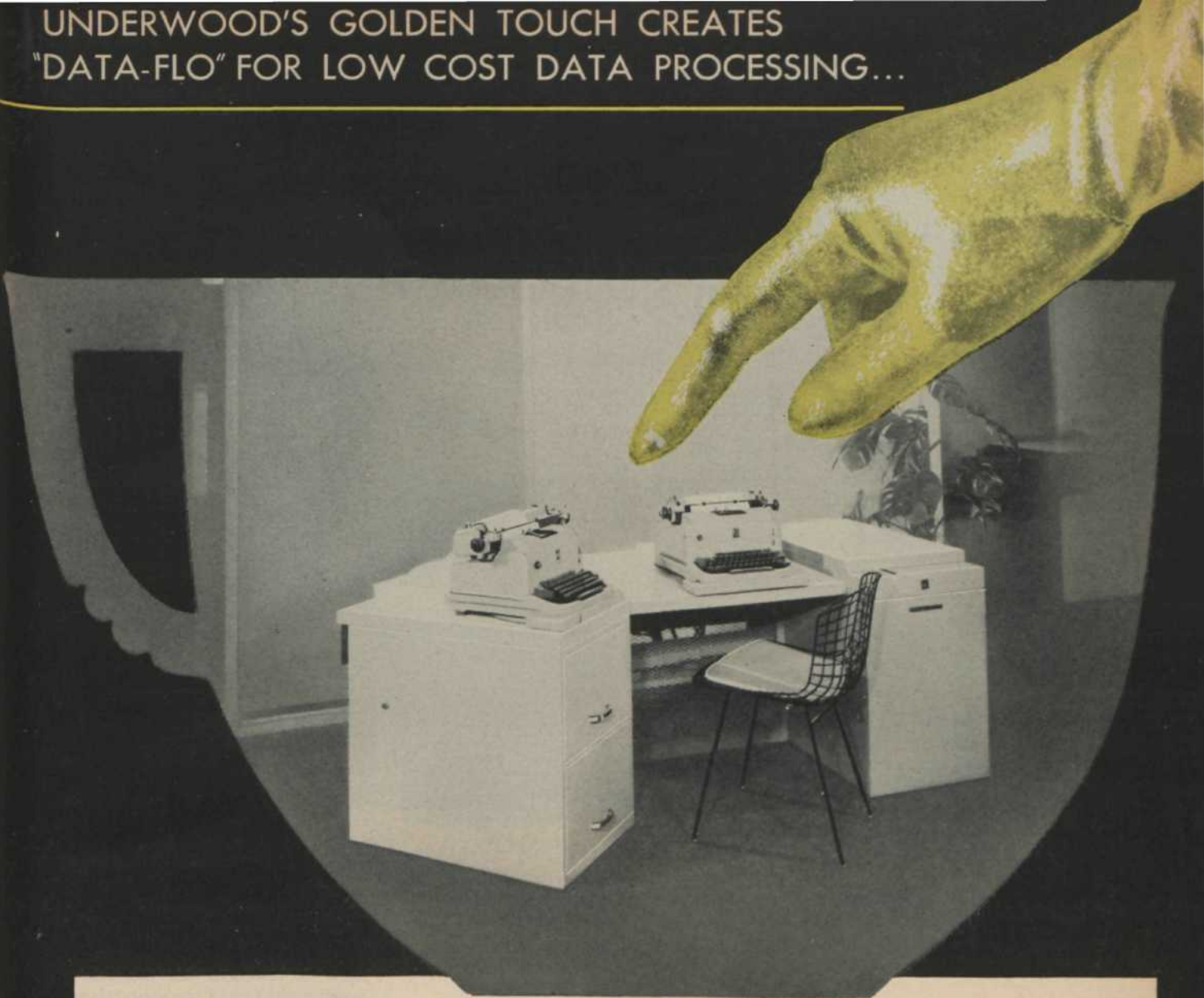
In acting to conquer fear, we essentially test out new ways of handling fearful situations. This is a gradual process. One can select the times when he has the greatest chance of success, and then move forward and see realistically that many of his fears are unjustified. This is like the swimmer who is frightened by water but who, step by step, progresses from the shallow to the deeper areas and finally is able to swim without fear in depths over his head.

The indecisive sales manager mentioned earlier began to see that part of his reluctance to take a risk was a result of his fear of failure. He found that he was most likely to be indecisive in the presence of his boss.

This man had been severely disciplined as a child. He rarely had been praised. He had learned to expect criticism regardless of how well he did. He spontaneously transferred these feelings from the early authority (parents) to the authority in his job (his boss). His reactions were inappropriate. He did not objectively assess the real differences between his boss and his parents.

As his insight increased, he found it easier to make some minor decisions. When some of these decisions turned out to be wrong, he

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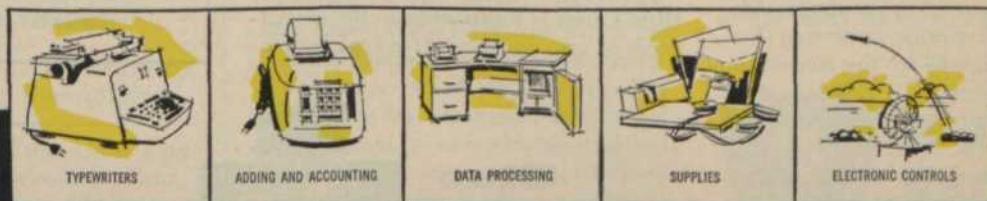
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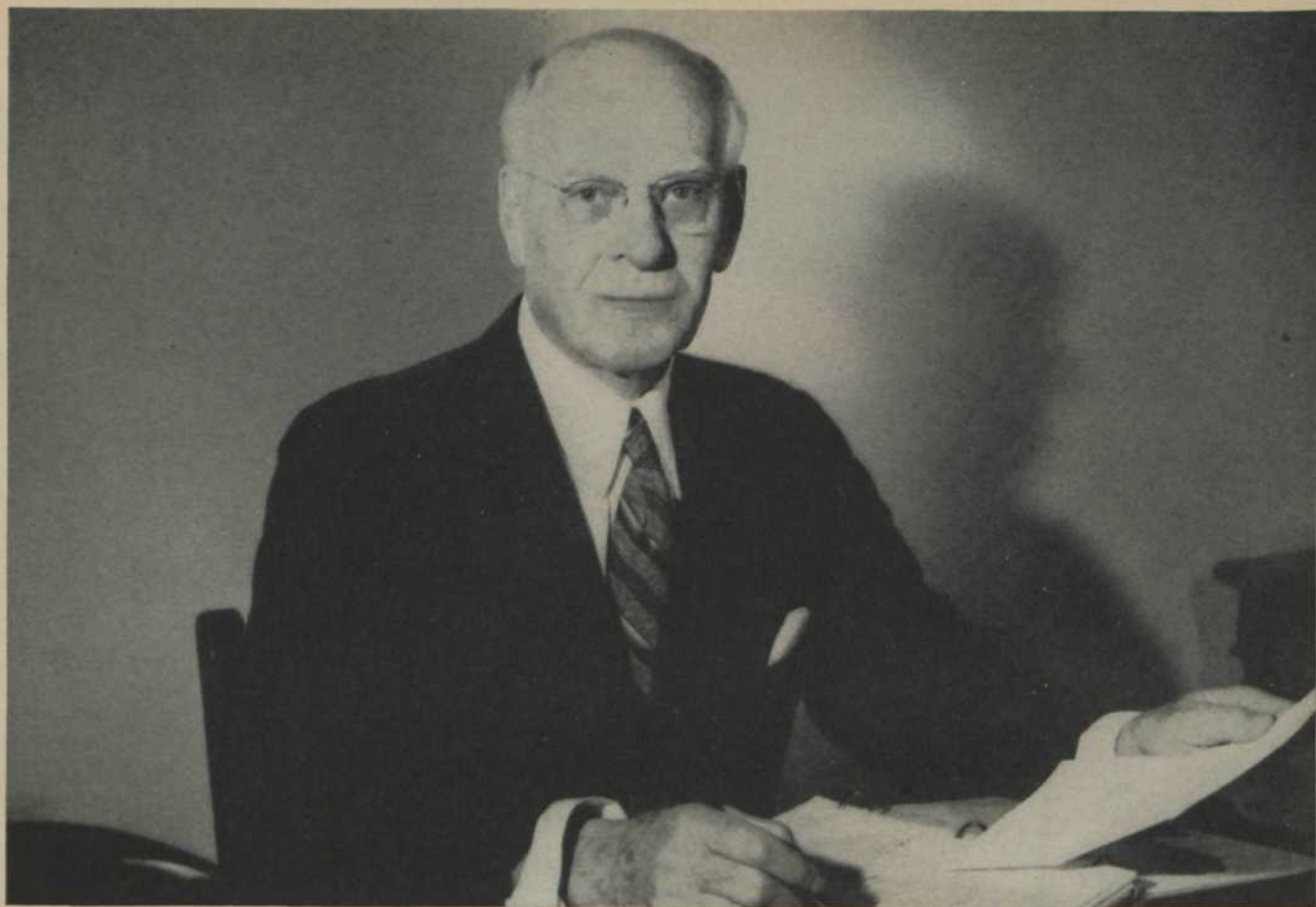
There are more, of course, and still more on the way. For simpler, less costly ways to master paperwork, call Underwood. The advice you'll receive is based on 64 years of experience. Products are backed by over 2000 expert servicemen.

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CONQUER FEAR

continued

discovered that he did not receive the severe abuse he had anticipated. He began to see his boss in a new and more realistic light and his performance in his job improved significantly. This man still has a long way to go in resolving his fears, but he has made great strides.

An assistant comptroller of a medium-sized New England manufacturing company had set unrealistically high standards for his performance.

As a result, he used up time and energy on relatively insignificant things and did not handle some of the big jobs properly.

The standards he set for himself originated from his own fears. They were not based on what the company or his superiors wanted.

Fortunately he became aware of his problem and made a deliberate effort to lower his standards for some jobs.

When he did this, he used his abilities more effectively.

The individual executive often gauges his success or failure by what others think of him. He wants others to respect and look up to him. If they do not, he considers himself a failure.

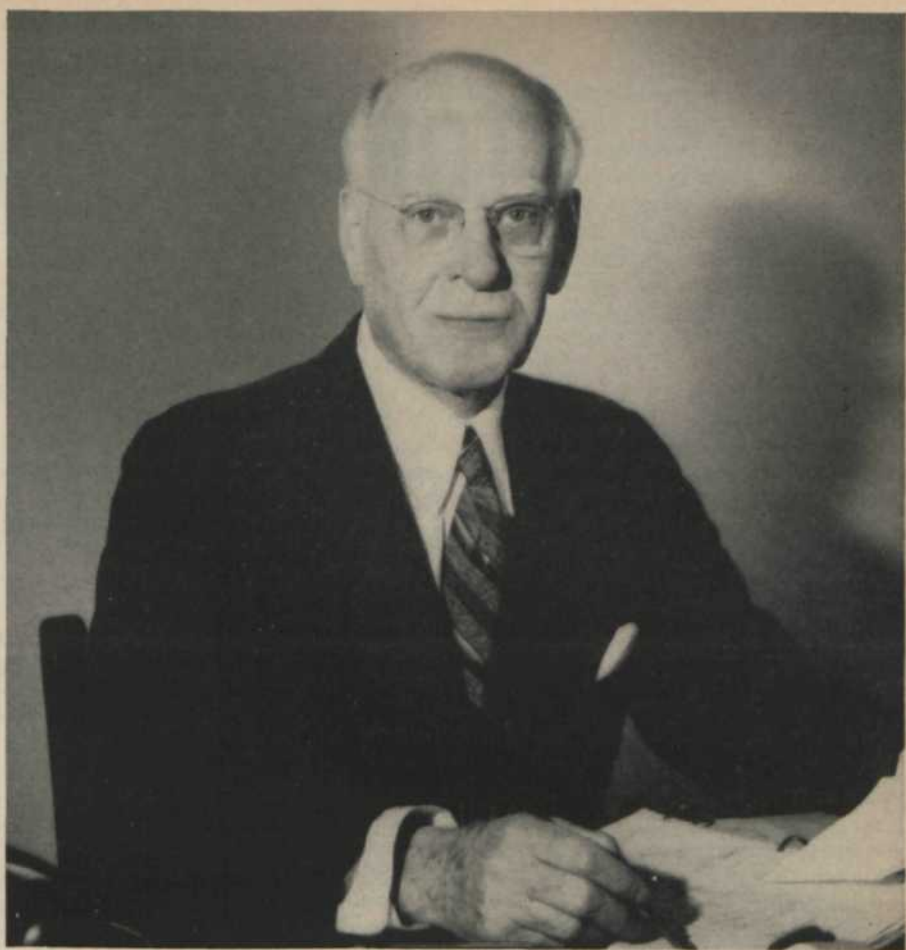
A common example of this is the executive who acts in an emotional way to try to win the respect of his subordinates. He accedes to their demands, does not assert his authority and lets his subordinates take advantage of him. He generally takes no action that might antagonize his men.

The man in this spot needs to be more firm in his direction. When he does become more firm, he often finds to his surprise that his men respect him more.

As these examples show, we master fear by changing our behavior. We act in a certain manner because we think that, if we don't, something undesirable will happen. When we change, we find out if the undesirable happens. More times than not, the feared or undesirable reaction is slight or doesn't even occur.

—EDWIN M. GLASSCOCK
Consulting Psychologist

REPRINTS of "You Can Conquer Managers' Greatest Fear," may be obtained for 15 cents a copy or \$10.15 per 100 postpaid from *Nation's Business*, 1615 H St. N.W., Washington 6, D. C. Please enclose remittance.



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STORM BREWS OVER VETS' PENSIONS

Drive for new, costly payments collides with economy efforts

ADVOCATES OF A SOUNDER and more equitable national veterans' benefits program believe that there's a chance this year of reshaping the multibillion dollar program.

They hope to give more to the truly needy veteran and slacken the ever increasing burden on the taxpayer that is inevitable under present law.

There are several reasons for these hopes.

First, President Eisenhower, after

a number of false starts, has finally given Administration officials the go-ahead to submit detailed recommendations to Congress.

Second, the American Legion and the Veterans of Foreign Wars are for the first time indicating that they are willing to compromise on their long-standing demands for changes that would greatly increase the costs of veterans' benefits.

But there is a cloud hovering over that distant horizon, too. A

new and highly vocal organization, The Veterans of World War I of the U.S.A., Inc., is vigorously pushing in Congress for an expensive across-the-board pension that would reach almost all World War I veterans aged 60 or more.

Despite the fact many congressmen have pledged their support to this proposal, it's almost certain that the "Wonniees," as they are becoming known in Washington, won't succeed. A comparatively large pro-



Compensation
is paid
to
veterans
disabled
in service



Pensions
are for
veterans
disabled
after
leaving
service

Since only a
fraction of veterans
are disabled in
service, pensions
grow faster than
compensation

portion of their support is among the freshmen in Congress. On the other side is the opposition of Chairman Olin E. Teague of the House Veterans Affairs Committee, a tough Texas Democrat, and Virginia's Harry Byrd, chairman of the Senate Finance Committee, which handles pension legislation in the Senate. Also, if the program should somehow get through Congress, President Eisenhower would certainly veto it.

The Wonnies are not to be written off, however. Their agitation can serve to block efforts to overhaul the present law. If that happens, the nation will have to continue with a veterans' program which, without a single liberalization, can be expected to rise from its present cost of \$5 billion a year to \$6 billion a year by 1985—a program, further, under which less and less of the money will go to veterans or the families of veterans killed or wounded in service, and more and more to veterans who suffered no war injuries.

To understand the issues involved in efforts to revise the veterans' program, the difference between compensation and pensions must be clear. These two forms of payment account for most federal outlays to veterans.

Compensation is money paid to veterans disabled in service and to

their dependents or to the families of veterans who died in service, or from a service-connected disability. Compensation is paid as a matter of right, regardless of need. It ranges from \$19 to \$600 a month, plus allowances for dependents.

Changes in the compensation program have been suggested. Some would change the way the program is organized; others would liberalize the payments. But basically everyone agrees that the nation should provide generously for the men who were disabled or died in military service.

Pensions have nothing to do with service-connected disability. They're strictly for veterans who suffer disabilities after leaving the service—sickness, accident or just plain old age (the disability tests for veterans past 65 are so minimal that practically any 65-year-old can qualify). In general, the pensioned veteran under 65 gets \$66.15 a month; if he's past 65, he gets \$78.75 a month. Theoretically, pensions go only to veterans in need but there are ways this restriction can easily be skirted.

It is the pension program that creates the big budgetary problems in the veterans' program. Compensation is high right after a war, but it declines gradually as disabled veterans die off. Right now, about 2.1 million veterans and their fami-

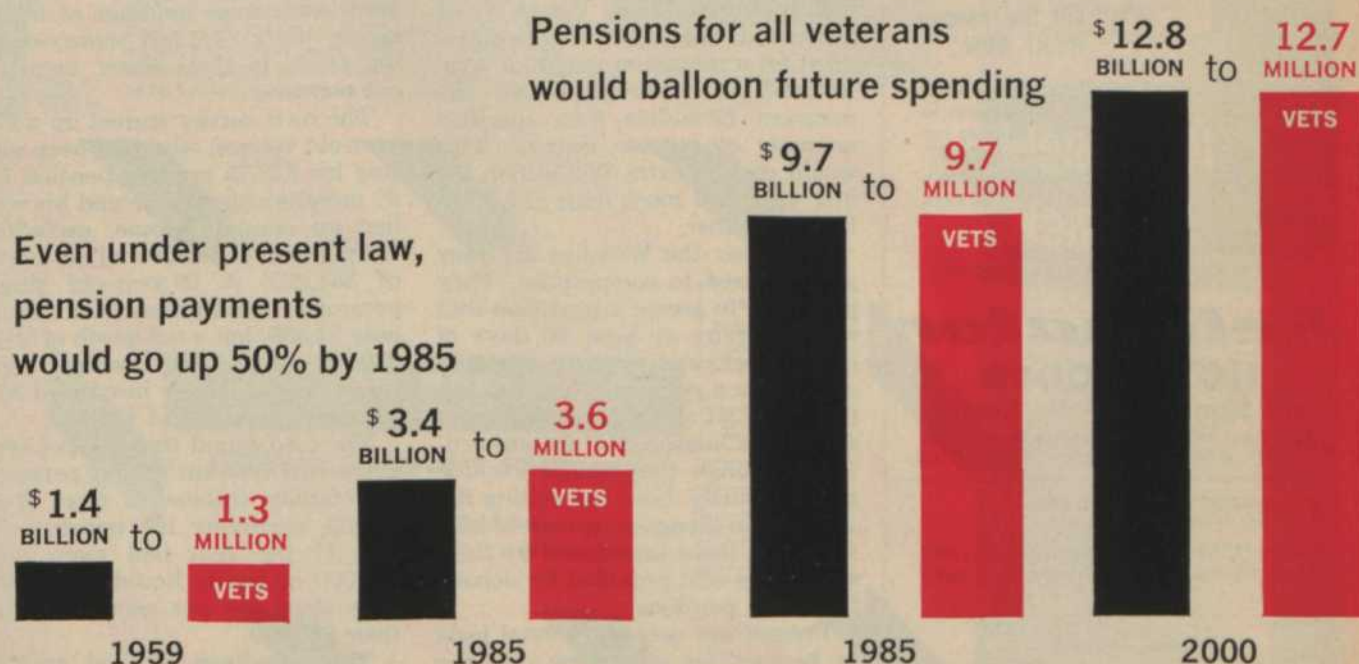
lies and about 400,000 survivors of veterans get about \$2 billion a year in compensation payments. The special presidential commission to study veterans' problems, set up by Mr. Eisenhower in 1955 under the chairmanship of Gen. Omar Bradley, estimated that this cost would drop gradually over the years to about \$1.2 billion in the year 2000.

But as compensation payments slowly decline, pension costs mount. Here is how the Bradley Commission explained this phenomenon:

"As a group of veterans advance in age, the number of the disabled increases and deaths mount. Typically, as the veterans reach age 65 to 70 they come on the pension rolls in large numbers. Then, as these venerable veterans die, their widows claim benefits in large numbers and keep the expenditures going at a high level. Since only a fraction of the veterans who serve in a conflict tend to be disabled from war causes, the pension peak is likely greatly to exceed the compensation peak, especially if general or service pensions are provided."

The length of time in obligations incurred in a pension system is illustrated by the fact that the last payments growing out of the Revolutionary War were made in 1911.

At present about 1.3 million veterans and survivors are getting a



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\$27 billion in pensions has been asked for World War I veterans

little more than \$1.4 billion a year in pensions. The Bradley Commission estimated that even with no liberalization of present laws, the program would increase to the point where some 3.6 million veterans and survivors would be collecting about \$3.4 billion a year in pensions by 1985—more than half the \$6 billion total outlay the nation can expect to make on veterans' programs that year. By the year 2000 some 3.7 million veterans and survivors would be collecting \$3.6 billion a year.

But assume an across-the-board pension for all veterans (and it is generally agreed that if Congress were to vote a pension for all World War I veterans now it would have to vote similar pensions for veterans of World War II and the Korean war). The Bradley Commission estimated that such a pension program would balloon to the point where by 1985 some 9.7 million veterans and survivors would be getting \$9.7 billion a year, and by 2000 some 12.7 million veterans and their survivors would be getting \$12.8 billion a year.

These astronomical figures do not seem to bother the groups seeking across-the-board pensions. The bill sponsored by the Wonnies last year would have provided a \$100-a-month pension for all World War I veterans at age 60—with no requirement for a minimum length of service and no requirement that the recipient have less than specified amounts of outside income. This would cost an extra \$2.3 billion the first year and more than \$27.7 billion altogether.

This year the Wonnies say they are prepared to compromise. They are ready to accept a provision that would require at least 90 days of service before a veteran becomes eligible for a pension. They also say they will go along—if necessary—with some "reasonable" income ceilings although they would exclude social security from the ceiling figure. But in the opening rush of bills this year, those introduced by their supporters still provided for across-the-board pensions.

Present law sets out several tests to be met for a pension. On the surface these look rather stringent,

but in practice that is not the case. The law requires disability, but the amount of disability required to get a pension gradually decreases as the age of the veteran increases. Thus at age 65 the veteran needs only a ten per cent disability—and officials say that almost any 65-year-old man can cite failing eyesight, impaired hearing or other symptoms of old age adding up to a ten per cent disability.

The law also says that, to be eligible for a pension, the veteran must be unemployable. This, too, is comparatively easy for many old-timers to show.

Finally, the law says a veteran can have no more than \$1,400 a year of other income if unmarried, or \$2,700 a year if married, in order to be eligible for a pension. Those are rather low limits, but surveys by the General Accounting Office for the House Veterans Affairs Committee raise a serious question as to just how effective they are.

For one thing, the income ceiling is based on the veteran's own income; a married veteran often can switch most of his income to his wife's name and thus get around it. For another thing, the ceilings put no restriction on the amount of cash, real estate or other assets the veteran can have. Thus many veterans with large holdings of liquid assets—they can put money-earning assets in their wives' names—get pensions.

The GAO survey turned up a 73-year-old veteran who had been getting his \$78.75 tax-free pension for 91 months although he and his wife had an annual income, excluding the pension, of \$6,316 and net worth of \$34,225. A 69-year-old single pensioner had an annual income of only \$1,299, but a net worth of \$64,920. A 65-year-old married pensioner had a family income of \$7,072 and net worth of \$21,780.

The GAO found that 3.4 per cent of married veterans getting pensions had family income of more than \$5,000, excluding the pensions. It said 17 per cent had more than \$10,000 in family liquid assets and more than one per cent had more than \$25,000.

These findings recalled another *(continued on page 77)*

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STORM BREWS OVER VETS' PENSIONS *continued*

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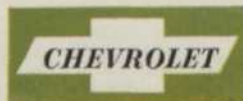
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VETS' PENSIONS

continued

GAO survey made for the House committees several years ago. It concerned veterans' hospitalization. Veterans are supposed to get treatment in Veterans Administration hospitals for non-service-connected disabilities only if they can't afford private treatment. Yet the GAO turned up a Spanish-American War veteran getting VA care despite an annual income of \$21,719 and a net worth of \$507,670. A World War II veteran was getting treatment despite annual income of \$7,700 and net worth of \$139,661.

Figures such as these are not cited to show that veterans are cheating the taxpayers; actually the cheaters make up a small proportion of those receiving benefits. But they do show the basis for pressure in the Administration and in Congress for legislation to put veterans' benefits on a more efficient basis.

There are other benefit programs in addition to the compensation and pension systems. Since World War II, the government has put out some \$75 billion for veterans under some 60 different programs—unemployment benefits, school assistance, low-cost insurance, housing and business loans, hospitalization and other items as well as pensions and compensation. According to Veterans' Administrator Sumner Whittier, the costs of all these programs but two—hospitalization and pensions—are now coming down. Pensions remain the big budget headache for the future.

Just as the Hoover Commissions laid out the guide lines for greater efficiency and economy in government, so the Bradley Commission proposed standards for a sound pension program. It suggested the government had an obvious and continuing obligation to take good care of the war disabled, to help the dependents of those disabled or killed in the service and help the non-disabled to get readjusted to civilian life.

But it also found that the average non-disabled veteran was far better off—in education, employment status and income—than his non-veteran brother.

Therefore, it suggested that after the immediate postwar assistance, the average non-disabled veteran could rely on social security and other social welfare programs just as the non-veteran does.

"The expansion in general social security protection for veterans and



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Bradley Commission laid out a program for obligations to vets

non-veterans alike enables the government to meet the needs of veterans more effectively than was possible in years gone by," the commission declared. "Our philosophy of veterans' benefits must accordingly be modernized and the whole structure of traditional veterans' programs brought up to date."

At another point the commission said that "veterans with no service-connected disability after readjustment should be considered to be in the same category as citizens who are not veterans."

The report of the Bradley Commission was issued in April, 1956, and President Eisenhower promised on a number of occasions to send recommendations to Congress to carry out its proposals. But it wasn't until the budget message of this January, with its strong governmental economy theme, that the President indicated he was ready to act.

"We must continue veterans' pensions and increase pension rates for those who are without other resources, particularly if they have families," the President said. "However, eligibility should be determined according to effective tests of need, both as to income and as to net worth, so that payments will no longer be made where the veteran or his family has adequate resources for basic necessities from other sources."

"Properly applied, I believe this approach can better serve those who are now in need, and at the same time minimize the burden placed on taxpayers by present laws. I have accordingly asked the Administrator of Veterans Affairs to present to Congress legislation both to provide more equitable treatment of needy veterans and to modernize the veterans' pension program in the light of social development and change."

Veterans Administrator Whittier has developed a sliding scale pension system to carry out the President's recommendation. It would give the pensioner with little or no outside income a bigger pension than he now gets, but it would give less to the pensioner with considerable outside income. It would cost the government right now from \$150 to \$300 million a year more than the

present system, but would save billions in the future. That's because in the future, with the growth of social security, private pension systems and other retirement provisions, more and more veterans will have sizable outside income and thus be eligible for much smaller pensions than they would get under the present provisions.

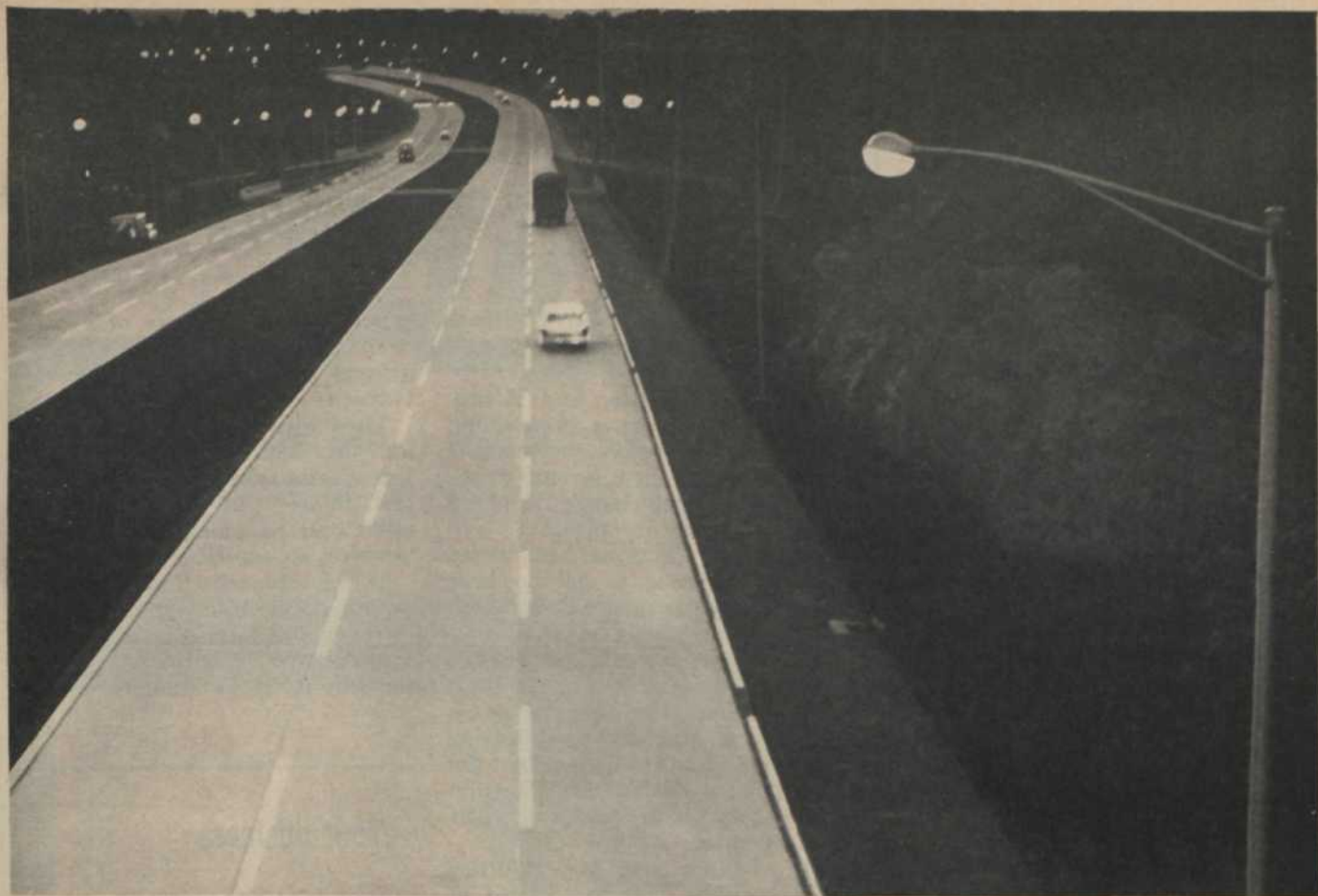
By contrast to the proposed sliding scale, the present pensions are figured on an all-or-nothing basis. An over-65 married veteran who has less than \$2,700 a year of other income gets a \$945-a-year pension no matter whether his other income is zero, \$1,000, \$2,000 or \$2,699.

The minute his income goes to \$2,701, his pension is gone. The same system works with single veterans. Thus a veteran can now get maximum social security—\$1,302 a year—and still get a full \$945 a year in pensions.

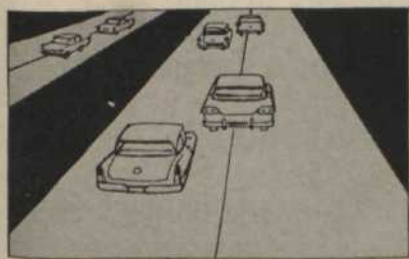
The exact figures to be used in the sliding scale can be worked out by the VA and Congress and undoubtedly will reflect, to some extent at least, what is necessary to get the votes to pass it. A hypothetical solution would be to start off with a pension of \$1,200 for a single veteran with no other income and \$1,800 for a married veteran with no other income—payments far above the present rates.

These figures would then drop to \$1,000 for the single man and \$1,600 for the married man if either had \$300 of other income. The pension would continue to fall as outside income rose until a single veteran with \$1,400 of other income and a married veteran with \$2,600 other income would get pensions of only \$200 each. If their outside incomes rose to \$1,600 and \$2,800 respectively they would get no pension at all.

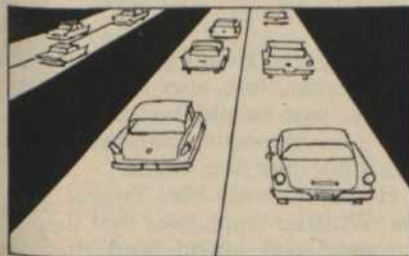
House Veterans Affairs Chairman Teague believes this is the right approach. He's not sure, however, that Congress and the veteran's organizations are ready to accept a complete overhaul of the system. He wonders whether it might not be better for now to increase pensions for the neediest men while providing stiffer income limits and net worth tests to take off the pension rolls some of the



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STORM BREWS OVER VETS' PENSIONS *continued*

Congress has usually been greatly influenced by pressure from veterans

more well-to-do beneficiaries. Then he would move later toward a full sliding scale.

Both Mr. Whittier and Representative Teague have been doing missionary work among the veterans groups to bring them around to accepting some such change. They are arguing that any organization pushing for broad additional benefits for everyone is going to get nowhere and at the same time will be keeping the truly needy veteran from getting a better break.

That, they say, is because neither the Administration nor Congress can move on a pension modification plan while there is a danger that the advocates of broad liberalization might move in to substitute their own schemes.

Mr. Teague and Mr. Whittier both recognize that the record of Congress in the face of veteran pressure is not reassuring. In 1956, acting under such pressure, the House actually passed a pension bill that would have boosted federal outlays by more than \$100 billion over the next 40 years. On a roll call, only 51 House members voted against the bill. It failed to become law only because Mr. Teague had succeeded in delaying the vote until so late in the session that Senate Finance Committee Chairman Byrd was able to bottle the bill up in his committee.

The fact that not one of the 51 House members who earned the enmity of veterans' organizations by voting against the bill was defeated in the 1956 elections may have tempered somewhat the long-standing congressional fear of the veterans' lobby.

But both Mr. Teague and Mr. Whittier feel that it would be an excellent idea to get as many of the veterans' organizations as possible on their side before they move in on the pension system.

Some signs indicate that they may succeed in doing just that. Amvets has already launched a running attack on the Wonnies, charging their proposals delay pension help for the needy veteran. And the vfw has indicated it is ready to consider a sliding scale, provided no veteran gets less than

he does now (sponsors of pension changes are resigned to the idea of a "grandfather clause" to prevent cutbacks on present pensioners).

Those interested in bringing about a change also hope that the American Legion and the vfw will show less interest in outbidding each other and be more cooperative in devising an equitable program.

If Representative Teague and Mr. Whittier can bring about pension changes of the kind they have under consideration, it will be good news not only for great numbers of needy

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veterans, who would get fatter pension checks, but also for the taxpayers, who would be saved from the ever increasing veterans' outlays that now face them.

However, both Mr. Teague and Mr. Whittier emphasize that there's a rough road ahead, and that, if the job is to be done, pressure from an informed, responsible citizenry—veteran and nonveteran—is needed on Capitol Hill to balance off the special-interest pressure of those who want to open the pension floodgates.

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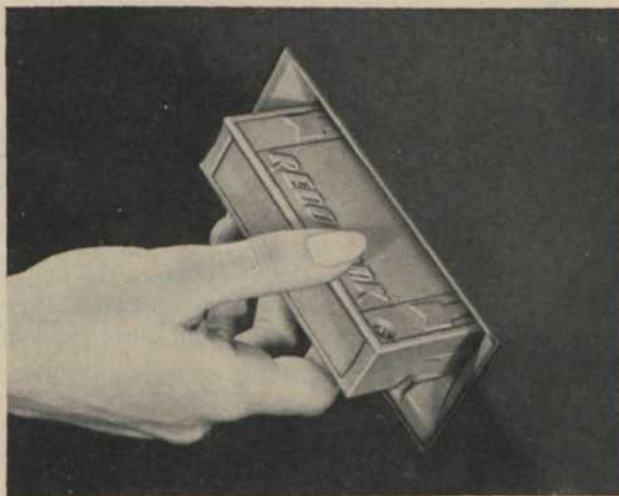
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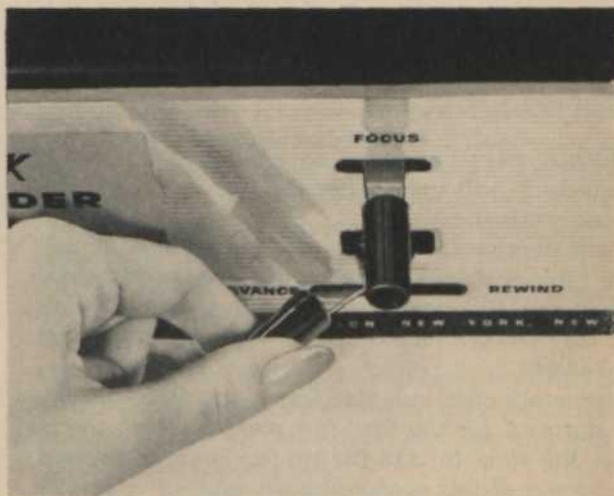
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ACTION NOW CAN STOP

INFLATION

Specialist on finance tells what
may happen if prices go unchecked

By **MARCUS NADLER**

CREEPING INFLATION is an economic disease. If continued, it will undermine the security of many millions of Americans.

It will deprive the thrifty of their savings. It will create large-scale unemployment and a highly volatile economy. By endangering the integrity of the dollar, it may weaken its position in the financial centers of the world.

Fortunately, the inflation forces are likely to remain dormant for the next few months. Now, therefore, is the time to take the proper steps to prevent a recurrence of this economic menace.

In spite of the rapid business recovery, the economy is still operating below capacity and unemployment is high.

Last year's abundant crops forecast a modest reduction in food prices, the most important element in the consumer price index. Federal Reserve authorities have adopted a policy of moderate credit restraint. The net effect has been that the wholesale price index has remained relatively stable during the past 12 months and the consumer price index has increased more slowly than during the preceding year.

The author is professor of finance at the New York University Graduate School of Business and a well known consultant and authority on business finance.

If the nation wishes to curb the forces of inflation and to assure relative stability in the purchasing power of the dollar, these steps must be taken:

1. The efforts of the President to balance the budget during the next fiscal year must be supported. If defense expenditures must be increased, other expenditures should be lowered.

2. Management and labor must use restraint in forthcoming wage negotiations to prevent a further wage-price spiral.

Wage increases should not exceed the rise in productivity, and the benefits derived from the installation of labor-saving machinery should be shared by labor and management with the consumer.

3. The farm policy must be changed to stop the drain on the public, which now pays taxes to enable the government to accumulate huge farm surpluses and at the same time pays higher prices for farm products. Moreover, this policy makes more difficult the sale of American agricultural commodities abroad on a commercial basis.

4. The Employment Act of 1946 should be amended to make it the obligation of the government to strive

not only for satisfactory employment conditions but also for maintenance of the integrity of the dollar.

These measures will impose no great hardships on the nation.

If they are taken in time the desired results will be achieved and inflation will be checked. If not, the nation will eventually be forced to impose on itself an austerity program which will be much more painful than the relatively mild remedies now required. The experience of France and other countries which have recently tried to live beyond their means and adopted creeping inflation as a way of life should be a lesson to the U. S. as to where such a policy leads if it is not checked in time.

These countries provide an effective answer to those who claim that a mild form of inflation such as we have had during the past few years is desirable because it creates favorable business activity, increases employment, and leads to larger profits.

Those who hold this view imply that the United States must choose between mild inflation or large-scale unemployment. They argue that the stability of the dollar is maintained at the cost of the unemployed. Thus a mild form of inflation fosters economic growth while attempts to preserve the purchasing power of the dollar would lead to unemployment and economic stagnation. If this were true, the only way out of this dilemma would be to impose price and wage controls which are not feasible in peacetime.

The problem is not as simple as that. It is highly doubtful whether reasonable price stability must necessarily cause unemployment. On the other hand, if a steady rise in prices is accepted as desirable, the number of individuals affected and the degree of suffering will be much greater than would result from allowing some unemployment.

It will cause such suffering:

- ▶ By its impact on capital formation.
- ▶ By contributing to a volatile economy.
- ▶ By undermining economic security.
- ▶ By weakening our world position.
- ▶ By its constant threat of turning into a galloping inflation.

Capital formation

To cite one example of the ravages of inflation: At the end of 1945 individuals held \$65 billion of government obligations. By the end of 1957 these obligations, as measured by the consumer price index, had lost \$23.9 billion in purchasing power. If one

considers the vast amounts represented by savings deposits, shares in savings and loan associations, fixed income-bearing securities, mortgages, pensions and annuities, the losses are multiplied.

Nor is it correct to assume that inflation leads to rapid growth in production and wealth. In current dollars the gross national product increased from \$363 billion in 1954 to \$453 billion (on an annual basis) in the last quarter of 1958, an increase of 25 per cent. In dollars of 1954 purchasing power, however, the gross national product rose only to \$408 billion, or 12 per cent.

The defenders of creeping inflation, acknowledging that holders of fixed dollar assets suffer, suggest that they be compensated in one form or another. One method, they suggest, would be to include in fixed-income-bearing obligations a clause requiring payments commensurate with the rise in the cost of living, as was done in Finland. Such a provision, however, would create major problems. The federal government, the largest single borrower, would not know what its ultimate obligations would be. State and local governments certainly would not tie their obligations to a cost-of-living index. Many corporations would refuse to do so because of the uncertain liabilities involved.

If not checked in time, creeping inflation will also have an adverse effect on the capital market. The supply of long-term funds seeking an outlet in bonds and mortgages will be reduced at a time when the demand for them is likely to grow. With a condition of persistent creeping inflation, individuals will sooner or later realize that investments in fixed-income-bearing securities are not desirable.

Although the income may be absolutely safe, the real value of the investment and the return tends to decrease constantly.

Under such circumstances, individual investors will turn more and more to equities or nonfinancial tangible assets, such as real estate, and less and less to bonds and savings deposits.

The shift of institutional investors, such as pension funds, from bonds to equities is already pronounced. This trend will continue unless the upward movement of commodity prices is halted.

Another effect of inflation will be that insurance companies will press more vigorously for the right to sell variable annuities. If states grant this right, this phase of the insurance business will grow materially, further reducing the availability of funds for fixed-income-bearing securities.

At the same time, the demand for long-term funds will increase because, in the expectation of higher costs, corporations and political entities will try to anticipate their capital needs. The demand for long-term funds will thus tend to exceed the supply.

The commercial banks will not be able to meet the



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ACTION NOW CAN STOP INFLATION *continued*

Inflation fosters maladjustment in prices which leads to unemployment

deficiency because under conditions of creeping inflation the Federal Reserve authorities are likely to adopt a policy of active credit restraint to reduce the availability of bank credit.

The effect will be a decline in home construction and public works, and possibly of public utility and other industrial construction.

In time, these factors will lead to a downturn in general business activity.

The impact of creeping inflation was aptly summarized by Ralph A. Young, research director of the Board of Governors of the Federal Reserve:

"In the longer run, without a relatively stable price level, it is most unlikely that an orderly economic growth at the maximum sustainable rate would be attainable."

A volatile economy

Creeping inflation tends to create a highly volatile economy. It brings maladjustments in wages and prices and leads to the adoption of a policy of strong credit restraint and ultimately to a decline in business activity, increased unemployment and reduced profits.

Inflation causes accumulation of inventories, which temporarily stimulates business activity. But the increase in prices of goods and services reduces the purchasing power of those living on fixed incomes. In time, the falling off of consumer buying power and the policy of active credit restriction bring the inventory accumulation to an end. Then liquidation sets in.

This happens at a time when the shortage of long-term funds is decreasing home-building, construction of public works and capital expenditures by corporations.

All these factors combined set in motion a sharp drop in business activity.

The first part of the cycle of creeping inflation is completed.

The government's efforts to prevent the recession from becoming too serious and protracted actually prevent a correction of the maladjustments.

The measures taken by the government to combat the recession lead to an increase in the public

debt. Financed partly through the commercial banks, these result in an increase in the money supply. This in turn revives the fears of inflation and keeps prices from falling. Wages and other costs of production continue to mount.

The larger money supply, the renewed fears of inflation, and the increased government expenditures bring an upturn as business tries to hedge against higher prices by means of anticipatory buying. This upturn accelerates the wage-price spiral and is soon followed by a decline in business activity and another rise in the public debt.

Moreover, the constant rise in costs of production, notably wages, leads to the installation of more labor-saving devices with effects soon felt in the labor market.

Unemployment may, therefore, remain substantial even after business activity is renewed.

Economic security

Creeping inflation, if continued, will undermine the economic security of millions. It will reduce the real value of pensions and social security benefits. It will make savings of individuals less valuable in purchasing power and erode the value of life insurance policies and annuities.

So far these adverse effects have brought only mild protest from the people affected.

Within the next decade, however, the number of people aged 65 and more living on savings, pensions and social security benefits will increase materially. These people are not likely to sit by and see their economic security further undermined without protesting or without bringing political pressure for remedial legislation.

Since private pensions, based on actuarial calculations, cannot easily be increased, the greatest pressure will be on the federal government to raise social security payments and on state and local governments to increase pensions. This may lead to a material increase in social security and local taxes, in turn reducing the take-home pay of employed persons and adding to the tax burden of the employers. Or it may lead to increased federal and

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ACTION NOW CAN STOP INFLATION *continued*

Our competitive position is weakening as that of Europe is getting stronger

local government expenditures and larger deficits, further feeding the forces of inflation.

Either of these developments is undesirable.

The dollar's world position

Recently, most European nations returned to limited convertibility, which means that nonresidents may now convert foreign currencies obtained from current transactions freely into dollars. To maintain convertibility, these countries will have to employ strict fiscal and monetary discipline to prevent inflationary pressures.

Such pressures will lead to a curtailment of exports and an increase in imports. This in turn will result in a loss of gold or dollar reserves which, if not checked in time, will force suspension of convertibility and imposition of exchange restrictions. European nations waited a long time before they took this big step toward convertibility.

It may be taken for granted they will do everything in their power to maintain the status of their currencies.

The productive facilities of the European countries have been rehabilitated. The new industries are operating with modern labor-saving devices. Mass production is spreading. It will receive a new impetus under the Common Market.

Until recently most European nations were not in a position to export large amounts of machinery, equipment and other capital goods without long delays in delivery. Now, however, they can compete with us in delivery and quality.

Moreover, wage rates in the leading industrial countries of Europe and in Japan are substantially lower than ours.

As a result, prices of many types of goods are lower than for American products. For example, in the third quarter of 1958 the wholesale price index of machinery and vehicles was 122 for the U. S. (1953=100), 115 for Great Britain, and only 107 for West Germany.

It is clear, therefore, that creeping inflation in the U. S. will adversely affect our exports.

American manufacturers will be unable to compete with foreign

nations in many lines. Imports will increase and the U. S. will not be in a position to raise tariffs or to impose import quotas on many types of goods because of the political repercussions abroad. Such a policy could induce some of our allies to seek more trade with the Soviet bloc.

The consequences of these developments will be:

1. Unemployment in industries affected by foreign competition will increase. This is bound to have an adverse impact on general business activity.

2. In the effort to mitigate unemployment, federal expenditures and budget deficits will be increased.

3. The United States' favorable balance of payments will decline.

4. These combined factors may undermine foreign confidence in the dollar and lead to an outflow of funds and gold.

Should such a situation develop, the U. S. will face the choice either of devaluing the dollar in relation to other currencies or adopting a policy of austerity to bring costs and prices into line with those of other countries.

Either decision would be exceedingly painful.

Galloping inflation

Creeping inflation can easily degenerate into galloping inflation. If the purchasing power of the dollar continues to decline and people become convinced that there is no real desire to check the inflationary pressures, they may decide to spend a part of their accumulated savings by anticipating their future needs and wants. Toward the end of November 1958, liquid assets held by the public in the form of currency, bank deposits, shares of savings and loan associations, and "E" savings bonds totalled approximately \$322 billion. Even if a moderate portion of this sum were spent, a sharp increase in sales and heavy accumulation of inventories could easily follow.

In short, an inflation boom would be started.

Experience of the past has shown that such booms invariably end in disaster within a relatively short time.

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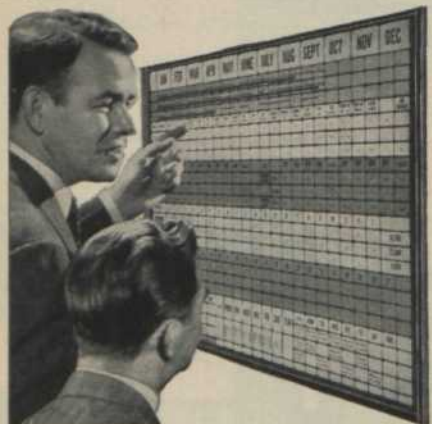
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WANTED: THESE TRAITS *continued from page 35*

Accent now is on proven performance more than on mere potential promise

Bowen. "Companies are not as willing to go along with comers unless they have a record of past successes."

Except in the electronics and a few other technical fields where demand is heavy, the proven man is insisted upon.

Companies that employ executive search firms to locate needed executives want men schooled in cost-cutting, men who didn't panic in recession, men who have had broad experience.

One company seeking a chief industrial engineer had such extensive demands it took seven typewritten pages to list the desired specifications. And it pinpointed within \$500 the salary it was willing to pay.

"There is strong adherence to the results theory today," notes Dean James L. Hayes of the School of Business Administration, Duquesne University, and consultant to Dresser Industries, Inc. "The emphasis is on setting goals and limits and getting results."

He adds that good human relations practices, which have been given considerable importance in recent years, are of little value to the manager unless he can actually get the job done this way.

Caution, good judgment, record of past accomplishments and success in earnings are all mentioned

as being allied to the quality of result-getting.

This accent on proven performance rather than potential brings with it more care and objectivity in appraising, selecting and promoting managers. "Standards are higher for managers now and we're giving them a good going over," says one psychological consultant. The recession revealingly tagged the weaknesses of some managers.

Though psychological tests to judge intelligence, personality, aptitudes and interests are valuable aids, reliance on such tests is being put in more realistic perspective, executive search people say.

"Psychological testing is being used as a tool now rather than as a complete answer," notes Ward Howell. "A few years ago if a psychologist said a manager was no good, the manager might as well go jump in the river."

One executive recruiter says unequivocally that reliable reference checks are more valuable than psychological tests in picking executives.

It's about the only accurate way to find out what a man really has achieved.

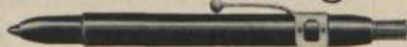
Though men are still being hired and promoted largely on the basis of how their personality or body chemistry jibes with that of top management, more objectivity and rigid standards probably will be applied in the future. As Dr. Hayes points out, management often has been disappointed with its choices in the past. It is seeking outside help and looking for more objectivity from now on in picking people who can excel at getting the job done.

One prerequisite to getting results is sometimes overlooked. It is good health, emotional as well as physical. Without energy, drive and stability, the brightest talent cannot be utilized to its fullest extent.

3. Vision

The man with vision probably has the potential for personal growth as well as the ability to perceive how his organization can grow. But vision also implies insight and judgment as to the future. In these terms, the quality of vision is in

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greatest demand, especially for top management's ranks.

Executive search specialist Sid Boyden reports that, for industrial positions at the officer or \$25,000-a-year-and-over level, "clients are laying much more stress on company growth potential than a few years ago."

"What they want is a man with the vision and pioneering instinct to grow with the company, not just a well qualified man to fill a present job," he says.

"Many companies are talking about doubling their volumes in the next five years."

So job candidates need to show a record of growth over a number of years.

"Where a man's growth pattern has been such that his responsibilities have increased sharply, it is likely this will continue."

Also implied in vision and growth is breadth of skill and interests.

According to Edward P. Moore, a partner of Rogers, Slade & Hill, management consultants, "The major requirement a decade ago was for managers with specific knowledge and experience in a particular industry."

Now the pendulum has swung toward a desire for the broad skills of administration, such as planning, organizing, and controlling."

Where breadth is emphasized, managers are expected to know the hit plays and best-selling books as well as how electronic data processing and operations research can be utilized.

The demand for vision and breadth has, in part, stimulated the growth of executive development courses and the interest in the professional manager who is not confined to a specific industry but who can practice management in any of a number of industries.

Though the value of some executive development activity has been critically questioned, most executive recruiters feel that advanced management training broadens the perspective, enriches a manager and helps him to see his own and his company's operation in perspective.

This ability to envision the whole seems mandatory today when there are so many techniques to master, responsibilities to shoulder, and outside forces such as government regulation and union power with which to contend.

Only the man with vision and perspective can hope to coordinate the complexities of these large organizations and prepare adequately for the future.

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How to be believed

Your words will carry a greater weight if you follow these rules

WHETHER YOU are trying to sell goods, a new company policy or management's side of a labor dispute, you can influence people's attitudes only if they believe what you say.

Getting people to believe you is not easy. The public has been subjected to so much high-pressure promotion of ideas and products that it has become wary and distrustful.

To help businessmen overcome the barriers to believability, NATION'S BUSINESS consulted a number of specialists in the field of mass communication and asked their advice on how executives can tell their stories more effectively.

The authorities say that, to be believed, you must be factual, candid and reasonable, and your actions must not belie your words.

More specifically, they urge the businessman to observe eight basic injunctions:

- ▶ Be truthful.
- ▶ Be factual.
- ▶ Be candid.
- ▶ Be plausible.
- ▶ Be realistic.
- ▶ Be a semanticist.
- ▶ Be constructive.
- ▶ Be trustworthy.

Let's consider the eight points in more detail.

Be truthful

If you are caught in just one falsehood—even a relatively inconsequential one—people will become suspicious of everything else you say. Every manager faces situations in which the temptation to fudge on the truth is almost overwhelming. When you face this temptation, remember that a great many people—business competitors, union officials, congressional investigators and newspaper reporters, for example—may take great delight in blowing the whistle on you. Honesty is not only the best policy; it is the only safe policy.

Remember also that it doesn't take a bare-faced lie to blast your reputation. The public resents a clever deception—the kind of statement that is literally true but actually misleading—even more than an outright prevarication.

A third thing to keep in mind is that people weigh all of your company's pronouncements in determin-

ing whether you are trustworthy. Some managers who are extremely scrupulous with the truth in their own statements allow advertising to appear over the company's name which is transparently exaggerated in its claims. If people learn they have to take your advertisements with a grain of salt, they will assume the same dosage is necessary for your speeches, policy statements or other public messages.

Be factual

You win more converts with information than with exhortation. The only people who are likely to accept your sweeping assertions of opinion are those who already agree with you. But facts, calmly and accurately presented, carry weight with nearly everyone, including those who may be prejudiced against you. Many of business's attempts to communicate with the public suffer from an argumentative, propagandistic tone. Remember: People will listen to your side of the story only when you offer them evidence upon which to make up their own minds.

Be candid

Everyone makes mistakes. When you make one, admit it. Confession is good, not only for the soul, but





Information not exhortation

for your reputation. Nothing builds credibility for your communications more effectively than a consistent record of coming clean when you have done wrong.

There are several corollaries to this basic principle. One is to speak up quickly when you have any confessing to do. You won't get any merit badges for candor if the truth has to be dragged out of you, bit by bit. By hedging and postponing and trying to cover up as long as you can, you will only succeed in giving the newspapers a good running story instead of a one-edition headline. By the time the facts are finally brought out, the public will be conditioned to believe that you must have done something pretty heinous.

Be plausible

Plausibility is used here to mean that your message must not only be true but sound true. A statement may be 100 per cent accurate without being the least bit convincing. Communication specialists are virtually unanimous in the conviction that it is much better to understate your case than to seem to overstate it.

Oren Stephens, propaganda analyst who heads the research division of the U. S. Information Agency, says understatement is a particularly effective tool of communication in the present climate of public opinion, which is characterized by a widespread cynicism.

"People are getting intensely weary of exaggerations," he says. "They have been subjected to the big-lie technique so often that they have developed a powerful resistance to any statement that seems incredible in the light of their own knowledge and experience.

"It is difficult to prove a point that your audience instinctively doubts, even if the point is true. Rather than embark on such an effort, it is usually better to tone down your claims a little, to bring them well within the limits of popular credulity.

"Don't be afraid to claim less for yourself than you

really deserve. This is one of the best ways to win public confidence and good will."

Be realistic

Most people are not greatly interested in your problems. They are intensely interested, however, in their own problems. The most persuasive messages—indeed, the only kind likely to have any impact—are those that tell the reader at the outset what's in it for him.

The management of the A & P Food Stores displayed a keen grasp of this in its battle for public support against Justice Department antitrust charges. A & P simply told the public: "If this thing goes through, your grocery bill will be higher."

This quality of putting yourself in the other fellow's shoes and discussing an issue from his viewpoint was stressed by several public relations counselors as an area in which business communication tends to be particularly weak.

One reason, it was suggested, is that too few businessmen really understand how the public feels about things. The public consists predominantly of wage-earners, consumers, small businessmen and others whose viewpoint on economic issues is not likely to be readily grasped by a corporation executive who talks only to his fellow managers.

This is a quality that you can't fake or delegate to your public relations man. If you really want to communicate with people in their language, you have to get to know them well enough to identify yourself projectively with their viewpoint. You may find that the policy you're trying to sell is actually hostile to their interests. If so, you had better change the policy, or at least keep quiet about it.

Be a semanticist

"If I could give businessmen just one piece of advice on improving their public communications," said a veteran Washington correspondent, "I would urge them to learn something about semantics."

Semantics is a relatively new science that is con-



Understatement is better

cerned with exploring the meanings of words—not merely the dictionary meanings, but the emotional freight they carry, the reactions they engender in the minds of various types of people.

Politicians and newspapermen have an instinctive appreciation of the power of semantics that businessmen would do well to emulate.

The late President Franklin D. Roosevelt's controversial proposal to increase the membership of the Supreme Court provides an example. FDR presented it as a plan to "reform" the court. Senate opponents promptly began calling it a proposal to "pack" the court.

Too often, business allows itself to be maneuvered into the losing side of a game of semantics. The extraordinary tenacity of a certain wartime levy on corporate income, for instance, was almost certainly related to the fact that its proponents succeeded in

views and psychological testing, what kind of messages are most effective in transmitting information about mental health to the general public. It identified three different variables which have a substantial effect on the public's interest in, and receptivity to, a particular message.

One was the factor of personal concern already discussed under the point "Be realistic." People were found to be most interested in mental health information that could be applied to their own situations ("What are the symptoms?" "What can I do to avoid a nervous breakdown?").

The other two factors were the "anxiety content" of the message and the degree to which it offered a solution to a problem. If a message was high in anxiety content—that is, in scare value—and offered no solution, public interest dropped sharply. People simply tuned out a message that was designed to frighten them without showing them a way out.

Be trustworthy

In this shrill era of mass communications, it is often hard to keep on believing that actions speak louder than words. But there is no doubt that your actions—and those of your firm—are an integral part of your communications. They can reinforce your words and make your message more believable. Or they can make you out a liar.

Product quality, fair treatment of employees, customers and competitors, and a demonstrated concern for the public welfare in all corporate policies are things that build a reputation for integrity which will do more than anything else to insure you a sympathetic audience. Conversely, a shabby act will take a long time to live down.

Several communication authorities note that it is not enough to keep your own record spotless. Through trade associations and chambers of commerce, you should work for a high level of ethical conduct throughout your industry, and in business generally. Unsavory deeds by a few can bring a whole industry into disrepute with the public.

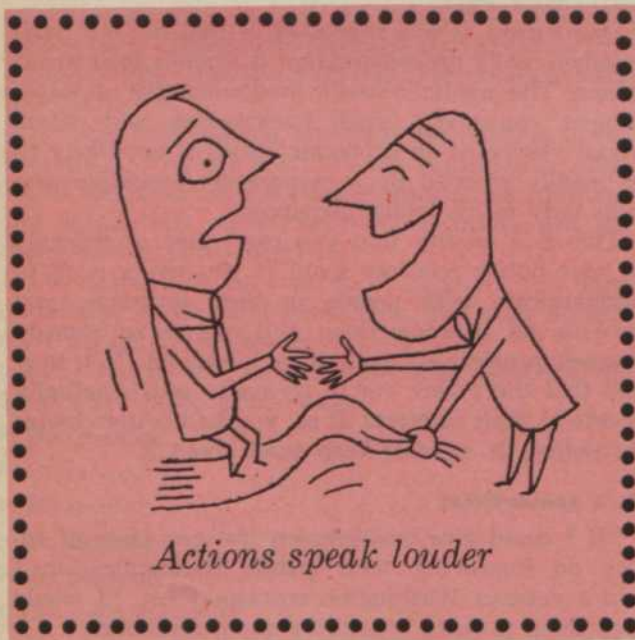
Robert F. Loftus, public relations director of the National Association of Home Builders, has an anecdote which he tells at builders' meetings, ostensibly to differentiate between advertising, publicity and good public relations, but actually to drive home the need for self-policing.

"Suppose you had a builder in your community who was putting up jerry-built houses and preparing to offer them to the public. Suppose also that this builder dressed up like George Washington, and on Washington's birthday went to the top of the highest building in town to scatter silver dollars in the streets.

"If he paid the newspapers to run a picture of this stunt, that would be advertising. If he persuaded them to run the picture free, that would be publicity.

"But if an honest builder slipped up behind that crook and pushed him off the roof—that would be good public relations."—LOUIS CASSELS

REPRINTS of "How to Be Believed" may be obtained for 10¢ a copy or \$6.75 per 100 postpaid from *Nation's Business*, 1615 H St. N.W., Washington 5, D. C. Please enclose remittance with order.



getting it named the "excess profits" tax. Once profits are labeled "excess" it seems only right and proper to tax them heavily.

Many of the terms on which business relies heavily are low in semantic appeal. The recent attempt to popularize "private capitalism" has not been successful, but it is a step in the right direction.

Be constructive

The experts were united in the verdict that too many business messages to the public are essentially negative. The messages voice warnings, or criticize what others are doing without offering constructive alternatives. This approach runs contrary to an ancient axiom of practical politics: "You can't beat something with nothing."

Recent psychological research, conducted at the University of Illinois under a grant from the National Institute of Mental Health, corroborates the belief that little can be accomplished by a scare technique.

The university's Institute of Communications Research sought to determine, through extensive inter-

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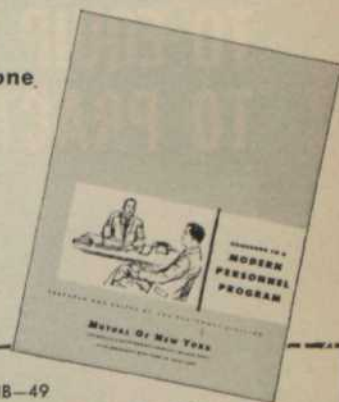
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Write for further information about any or all of these three training and action programs—and about how you can put them in operation in your community—to practice freedom.

CHAMBER OF COMMERCE OF THE UNITED STATES • WASHINGTON 6, D. C.

Many problems still remain to keep unions from working in close harmony

The former CIO president and head of the United Automobile Workers still has not been accepted by the old-line trade unionists from the old AFL skilled trades. They don't like his radical ideas and are probably jealous of his intelligence and oratorical ability.

Mr. Reuther was especially criticized for his proposed march on Washington by the unemployed, which some felt smacked of communist tactics. For this proposal, approved by Mr. Reuther's economic policy committee before Mr.

union while complaining of raids on his own union. But before the seven days of meetings were over, hurt feelings were patched up for the time being.

David J. McDonald, president of the United Steelworkers, who was absent on a trip to Australia, continues to remain cool toward and critical of Mr. Reuther, as he has been since he tried to prevent Mr. Reuther's election to the CIO presidency in 1952.

With the second largest union in the AFL-CIO, Mr. McDonald can

drastic action, while those from former AFL unions don't like to reduce their strength and their influence in the Council.

Any impulse to expel a union with corrupt leadership from the AFL-CIO is tempered also by the fact that it doesn't end the corruption and, as in the case of the Teamsters Union, doesn't weaken the union. It also cuts into the AFL-CIO's income, something it can ill afford at this time when membership is slipping.

Over the protest of former CIO leaders, the Executive Council deferred acting against the refusal of Maurice A. Hutcheson, a Council member and president of the 850,000-member Carpenters Union, to appear and explain his indictment in connection with a highway scandal in Indiana.

Mr. Hutcheson's case was considered different from Dave Beck's because alleged misuse of union funds was involved in Mr. Beck's case and he pleaded the Fifth Amendment before the Senate Rackets Committee. Mr. Beck was removed from the Executive Council and his union later expelled from AFL-CIO. Mr. Hutcheson did not take the Fifth Amendment, but he has been cited for contempt of the Senate for refusing to answer questions of the McClellan Committee on other grounds. He maintains that union funds were not involved in the highway matter.

Nevertheless, self-preservation had a lot to do with the Council's decision. Mr. Hutcheson has authority to pull the Carpenters Union out of the AFL-CIO whenever he sees fit, and it is a good bet that many of the other craft unions from the AFL would join the walkout if it occurred.

In other actions involving corrupt unions, the Council appointed a trustee to administer the affairs of the International Jewelry Workers Union, which is undergoing a housecleaning, and appointed a committee to investigate the request for reaffiliation from the International Longshoremen's Association, expelled as racket-ridden in 1954 before the Senate Rackets Committee started its work. The ILA claims to have cleaned house.

Mr. Meany is considering a complaint from a defeated officer of the United Packinghouse Workers that he was beaten because he fought communists who, he claims, dominate this union of 130,000 members.

Mr. Meany criticizes lax local law enforcement and corrupt employers as largely responsible for corrupt



RAKSDALL, INC.

Secretary-Treasurer William Schnitzler leads Peter McGavin (right), assistant to President Meany, to a closed-door Executive Council session at which most staff men, such as George Weaver (right), are barred

Meany's delayed arrival in San Juan, the UAW chief received a tongue-lashing from Mr. Meany in the privacy of the Executive Council session.

Mr. Meany also berated James B. Carey, head of the International Union of Electrical Workers, for permitting a raid on a former AFL

likely keep Mr. Reuther from becoming the next AFL-CIO president.

Corruption: This is still a problem within AFL-CIO, and a bone of contention because the corruption seems to be confined to unions from the old AFL. Council members from former CIO unions want quick and

union officials and welcomes government assistance in rooting it out.

To date, the AFL-CIO has expelled three unions, the teamsters, bakery workers and laundry workers, and chartered two new rival unions for the bakery and laundry workers. It has set up a rival to the teamsters only in Puerto Rico, where James R. Hoffa, Teamster Union president, threatens to boss the entire island. On the mainland, too many unions, particularly those from the old AFL, need teamster cooperation to maintain their strength.

Jurisdictional disputes: The issue of craft vs. industrial unionism caused the 1935 AFL split which led to the formation of the CIO. It still plagues the merged organization.

In the past the problem centered around the structure of unionization, as between craft groups and plant-wide groups. It now comes up most often in situations where industrial unions representing plant and maintenance employees want their members to perform any construction work that comes up.

Some industrial unions are insisting that employers agree in the labor contract to give their members this work. Heavy unemployment in manufacturing has made this a more pressing issue. The construction industry, supported by the building trades unions, has asked Congress to declare such a union demand unlawful.

A committee of the Executive Council is trying to resolve some of these disputes, mostly in the oil, chemical, steel and rubber industries, under this AFL-CIO approved formula: New construction work belongs to the craft unions; maintenance and remodeling goes to the industrial unions; where work is not clearly one or the other, past practice in the area will be followed.

Membership: AFL-CIO membership dropped from 15 million to 13.5 million after the teamsters, bakery workers and laundry workers were expelled. Over the past three years, AFL-CIO unions have signed up one million new members, but they have lost more than that, largely through heavy unemployment. Present membership is about 13.1 million.

Heaviest losses have been in UAW, down 400,000 to one million; United Steelworkers, down 300,000 to 930,000 and United Electrical Workers, down 100,000 to 300,000.

To offset the financial loss, the Council assessed affiliated unions one cent a month per member, for the next six months. This will bring in an additional \$750,000 this



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Substantial wage increases will be strongest union demand on employers

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Most of the extra money will be devoted to organizing efforts in the South and among white-collar workers, where there is the greatest potential for new members. (See "Here Comes Union Drive on Office Workers," February issue.)

AFL-CIO and employers

Main objectives involving direct relations with employers are to seek higher wages, shorter hours and job

threatens to remain permanently in the area of five million to six million. It was 4.7 million in February.

All eyes are on negotiations which will open May 18 in the basic steel industry, although major demands are also pending in rubber, longshoring, meat packing and railroads.

The AFL-CIO is not concerned about inflation. As Mr. Meany puts it, it is better to produce goods at higher prices that workers can buy, than goods at lower prices that they cannot afford.

Shorter work week: The goal of a 35-hour week, with no loss in pay,

take effect one year after enactment.

Not even the steel workers will press seriously for shorter hours this year. Mr. McDonald favors three months vacation every five years, rather than shorter weekly hours.

Basis for the shorter hours demand at this time is the failure of increased production to make any substantial reduction in unemployment, which is blamed on increased use of labor-saving machinery.

Mr. Meany complains, for instance, that although the economy has regained 76 per cent of lost production, only about 26 per cent of those workers laid off from industrial jobs have been rehired.

Job security: Employers will face increasing demands for protection against layoffs and plant shifts, and for full supplementation of unemployment compensation so as to assure a guaranteed annual wage. Progress already has been made in some industries where idle workers get as much as two thirds their regular pay for as long as a year.

AFL-CIO and government

From government, the AFL-CIO wants more spending, which it feels will create more jobs and reduce unemployment. This will be the theme of the coming mass unemployment conference in Washington. It also wants a voice in fiscal policy, protection and assistance in wage and bargaining matters, and more social legislation.

Minimum wage: The AFL-CIO supports the Kennedy-Morse-Roosevelt bill to raise the minimum hourly wage from \$1 to \$1.25 an hour and extend coverage to eight million more workers, mostly in retailing and service industries. But its objectives go beyond this bill. It would also extend coverage at this time to large farms. As a second step on the wage level, it would raise the minimum to \$1.50. This figure was proposed three years ago.

While supporting reciprocal trade agreements, the AFL-CIO believes they should be used to help promote fair labor standards all over the world.

"There can be no fair competition in international trade unless it is based on decent wages and working conditions, limited in each country only by the economic capacity and the productivity of its industries," the AFL-CIO says.

Taft-Hartley: The AFL-CIO is insisting that the union-desired Taft-Hartley amendments included in the Kennedy-Ervin bill be passed, along with other sections of the bill



PANDELL, INC.

Questions put to AFL-CIO President George Meany at press conferences try to bring out the meaning of Executive Council decisions. Nation's Business and other publications are represented in group above

security through bargaining and legislation.

Wage demands: Employers will find the demand for substantial wage increases more pressing at this time than the demand for shorter hours.

The AFL-CIO leaders feel that increased purchasing power through higher wages is necessary to promote economic growth and reduce unemployment, which they say

is now official AFL-CIO policy for the first time, but nobody seriously expects any real progress toward it soon. More reliance will be put on proposed legislation for a 35-hour basic week under the wage-hour law. Time and a half overtime pay would begin after 35 hours in a week, instead of the present 40, under bills introduced by Sen. Patrick V. McNamara, Michigan Democrat, and Rep. James Roosevelt, California Democrat. The law would

which provide for reform in the internal operation of unions and impose some restrictions on employers as well. Otherwise, it will drop its support of the bill.

These amendments would ease secondary boycott restrictions, which most employers feel already are too loose, and would strengthen the control of building trades unions over construction workers.

The unions will continue to press vigorously for repeal of Section 14(b). This would nullify right-to-work laws in 19 states. But because the issue is so highly controversial, it will not insist on it as a price for supporting the Kennedy-Ervin labor reform bill.

Social legislation: The AFL-CIO wants to increase the level of social security benefits by increasing the tax 25 per cent through an increase in taxable earnings from \$4,800 to \$6,000 a year and using a more liberal computation of earnings in measuring the benefits. It also wants to add hospital and medical care. These are provided in the Forand bill.

On unemployment compensation, the AFL-CIO is backing the Kennedy-Karsten bill, cosponsored by 31 senators and 119 congressmen from 29 states. This bill would, for the first time, provide for federal minimum standards with respect to the amount and duration of benefits and eligibility. The minimum standards proposed—half pay or two thirds the average state pay—are higher than any state now provides, would increase payroll taxes for most employers, and would be a big step toward destruction of the federal-state system. (See "Unions Push Federal Jobless Pay," March issue.)

Federal Reserve Board: The AFL-CIO wants unions, consumers and small business to be given direct representation in determining government monetary policies through membership on the Board of Governors of the Federal Reserve and the boards of the 12 regional Federal Reserve Banks.

The Executive Council attacked the Federal Reserve system as the private domain of banks and big corporations and asserted that its anti-inflation policies created mass unemployment and stifled economic growth.

It said that the Board's decisions should be "coordinated with other government decisions designed to accomplish the central objective of the American economy—maximum employment, production and purchasing power."

END

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Executive Trends

New tool for managers—history

Company chronicles are becoming an important new adjunct to executive decision-making.

Prof. Albert K. Steigerwalt of the University of Michigan, one of 250 specialists in this little known field, says two factors lie behind the boom in business histories: 1, increased recognition by businessmen of the need to provide an objective account of their actions to the public and, 2, growing awareness in the academic world that good histories can give insights to business practices and policy making.

The histories give the businessman a critical analysis of the growth and development of his firm, plus an objective portrait of its strengths and weaknesses.

► Unlike past company histories, many of which were little more than promotional whitewash, today's chronicles are generally being handled on a contract basis with full freedom granted to the authors.

More in-plant training coming

As noted in this space some months ago, executive education was hit hard by the 1957-58 recession. Lawrence A. Appley, president of the American Management Association, estimates that executive "school" enrollments totaled some 300,000 in 1958—down from about 500,000 the previous year.

Indications now are that the slump in manager education is ending. AMA, for example, figures that total executive enrollments in its own and other programs—including those offered by universities—should climb back to about 1957's level this year.

Emphasis is shifting to close-to-home training, including in-plant training. Many concerns believe they get better results from training if they manage it themselves, since that assures control of the curricula and concentration on job-related problems.

► It has been reliably estimated that 1,000 U. S. companies are spending more than \$2 million annually to send their managers through programs offered by the nation's universities.

Is success making you sick?

A recent issue of one of America's most popular women's magazines explores (from a wife's-eye-view) the problem of unhealthy career competition among executives.

An alarming example cited in the report is that of a company

in which half a dozen key men "dropped dead" from heart attacks in a period of less than a year as a result of their internecine struggles for position. Competition among them had reached into their suburban home life, with each of the executives trying to outdo his associates in such strenuous avocations as building patios and barbecue pits.

The moral is one that most doctors and management authorities unreservedly indorse: Executives should compete, but not to the extent that the competition becomes detrimental to health.

► But how can you tell when the danger point has been reached? A Washington, D. C., psychiatrist who has treated numerous executives says it depends on your honest answer to this question: "Why am I working as hard as I am?" If your answer is "for the fun of my work," or "for the creative satisfaction it affords," or "to enhance the opportunities of all of us," then you are probably not in trouble. But if your answer is "to put me in a more favorable position than so-and-so for the next raise or promotion," then you are driven by unhealthy motivations.

The tyranny of self

To avoid the harmful effects of competition, we should re-examine what the term "competition" means to us. For too many people, psychologists say, the word means actual physical combat and all the emotions which accompany it—particularly fear and rage. When these emotions are at work, the body and mind undergo pressures which, if sustained for a long period, can be harmful.

An executive who harbors unhealthy motivations—such as fear or jealousy—often fails to realize that they are driving him. Psychologists point out that men of action frequently lack insight into themselves. They bull ahead without thought that they may be straining for a goal because of undesirable motivations.

► Of all the emotional problems which bedevil business executives, none is more universal than the fear of failure. Consulting psychologist Edwin M. Glasscock says that because many fears are deeply rooted in the personality, it sometimes requires professional help for the individual to develop effective ways of handling his feelings. However, there are certain guide lines which each of us can follow (see Dr. Glasscock's article on page 40).

Some recruiting guide lines

If you or other executives of your company are planning to interview college seniors this spring you might find some useful hints in a new survey of campus recruiting by business and industry. The report was prepared by Dr. Frank E. Endicott, director of placement, Northwestern University.

The survey covered 205 well known business and industrial concerns. It concludes that there will be a substantial increase this year—over last—in the number of college men and women to be employed.

The most useful question that can be asked in an initial interview, the survey shows, is one covering the long-range goals, ambitions and objectives of the graduate.

► Other helpful questions listed: Why did you choose your field of special study? What subjects have you enjoyed most? Least? Why do you think you qualify for this type of work? Why did you select this company? Questions of this type, the survey indicates, give the recruiter a good foreknowledge of the graduate. "Poor personality" is the most often cited reason for rejection of the graduate-applicant.

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TOMORROW'S MANAGERS FACE MANY CAREERS

Era of rapid change demands
new attitudes from leaders

A Nation's Business interview
with Dr. James B. Edson,
Army research scientist



NEVER HAS the rate of technological advancement been so accelerated. The implications of this progress extend beyond science. They touch every aspect of our lives, our personal psychology and economy.

What kind of men will excel in tomorrow's fast-changing world? Under what conditions will business operate? Dr. James B. Edson, assistant to the director of research and development for the Army, gives his opinions here. Trained as

a physicist and an astronomer, Dr. Edson describes himself as a scientist with a generalist's views, a student of the human characteristics necessary for success in the space age. He developed the missile-tracking telescope and was a co-developer of tactical atomic weapons for the Army.

Here's how Dr. Edson answered the questions of a NATION'S BUSINESS editor:

Dr. Edson, will you comment on the problems business will face in the future?

The foreseeable future will be dominated by an ever increasing rate of change. Our research investment now yields compound interest.

Our knowledge of physics, for instance, appears to be doubling itself about every 15 years.

Our physical powers grow even faster than our knowledge. Such things as the thrust of the biggest rocket or the energy of the biggest bomb are increasing by ten or a hundredfold in a decade.

The value of a new piece of knowledge or a new technique is proportional to the number of techniques one already has.

Since our wealth of technique is

already very large, every additional piece of knowledge makes, accordingly, great difference.

Rewards for swift, successful innovations and oblivion for the laggard will be even more conspicuous factors in the future. This will extend to nations as well as to private enterprise.

What problems will this rapid progress bring?

One of the sociological problems, for instance, arises from our habit of creating vast new enterprises to meet a new need without any plan for the termination of these enterprises after the need is met.

One has to plan to recover his resources in order to have the strength for the next step.

We find our best examples today in the field of military technology. There we already see, for example, the urgent problem the military aircraft industry faces in trying to transform itself into a quite different missile industry.

The problem is not so evident in the civilian economy because the forcing factors are less strong. But international competition extends increasingly into the economic and social areas.

What changes do you foresee in business technology?

I see automation growing now in two main fields. One is in the direct control of physical processes such



“Machines will deny to management the privilege of irrational decision”

as manufacturing, or the guidance of missiles. The other is in all such administrative operations as may be directed by the logical application of a rule book. Machines are better and faster at logic than are men.

Does that mean that more decisions in the future will be made by machines?

More and more the machine will deny to management the privilege of irrational decision. There will remain areas where facts are missing. The crucial area of command decision will challenge the skills of superbly trained and gifted people.

How will such a manager be trained?

At present there is no stabilized art of management for change. Each manager must rely on his own ideas, but an effort is beginning now to stress and develop this difficult field of management.

In the future a manager will have to be tuned to the fact that nothing will be remaining static very long. He will normally anticipate that his present product, organization and plant will be outmoded.

What qualities will be necessary for such a manager?

The manager and the leader in a dynamic society must first of all be creative. He must have original ideas for the solution of the novel problems that continually arise.

He must be a leader in energetically applying the new concepts that he originates, and he must be always a master not only of the art of leadership but of the new sciences and technology that will flow into his realm of effort; he must always be learning.

Will the manager's job be significantly changed in the future?

Surely our dependence upon each other, and the manager's need to direct the efforts of many men, will grow in the future.

Will we be more dependent upon one another in the future?

That is right. The manager's problem must be the willingness to dismantle or make major rearrangements in the organization that he has built, rather than to continue desperate and unfruitful efforts to preserve. He has to learn to change. Just as a side remark, this is a difficult thing to do. The knowledge that a plant a man has built is no longer going to be economic, and that he must have a plan to dismantle it in an orderly way, re-employ the men and start anew, is a particularly hard thing. Yet this is going to be the kind of thing that managers must face.

I think there will be in the future, as always, areas of less rapid change and more modest rewards. An example today, I think, is in the public services and public utilities

where demands and techniques change less rapidly.

How will this affect the personal psychology of man?

Instead of depending on one's status in society, on one's job and on one's established profession, one must learn to depend on his innate intelligence and abilities to meet problems not previously mastered.

Within a single life span a man may have several careers. He may have been a manager of a major military aircraft production facility. He may now meet the requirements to manage profoundly different guided missile manufacture. Beyond that he may face the end of the crucial significance of the guided missile and the beginning of some yet unforeseen technique before his working life is over.

In the past our cultures have been based on the assumption that nothing will change very much. Accordingly, we have learned to rely for our self-confidence and security on keeping a status quo in our work.

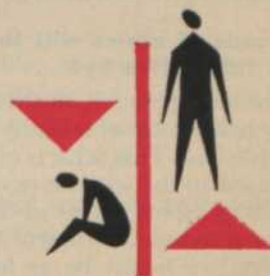
The man who aspires to leadership cannot cling to the past. Also in the future, many more people will, of necessity, come to know the pure joy that flows from new achievement. This joy is familiar to the scientists and other creative workers of today. It is what drives them to superlative accomplishment often in the face of poverty



“When all countries possess atomic weapons, surely all nations will be polite”



“Tomorrow's manager will need to be actively learning all of his life”



“The future will bring rewards for successful innovations, oblivion for the laggard”

MANY CAREERS

continued

and social opposition. The responsible citizens of a dynamic society must of necessity repeatedly experience the triumph of new achievement because the repetition of old achievement will soon become fruitless.

Must the manager of the future be more self-disciplined than the man of today?

Yes. In the first place, education requires discipline, the discipline of the child to turn from play to study, the discipline of the adult to turn off the television and turn on the desk lamp. Then, too, when human knowledge is sketchy, or lacking, any impulsive course of conduct may be as successful as any other; but when one competes with men who possess a vast strength of pertinent knowledge and the power to apply it, whimsical and impulsive conduct fails.

How will a person's freedom be affected in the future?

The man of the future will be as free as his fellow citizens let him be.

In earlier times when the population was sparse, a man, or at most a family, did most everything for himself. Now you and I can do little for ourselves. We do things for each other. This arises partly out of increasing specialization, and partly out of the pure fact that there are more of us living closer together. A man's freedom in the future will be measured by the willingness of his neighbors to give him what he wants.

What code of ethics will the man of the future live by?

Anthropologists tell us that every society has a body of faith by which its people live. This faith is often incorporated in the wisdom sayings of the society. Some of the sayings by which a dynamic culture of the future may live might be as follows:

Knowledge is power.

The joy is in the becoming.

As you serve, so shall you be served.

Of course, the timeless basic truths of society will continue to endure, one such as the Golden Rule. We have each at one time or another known the satisfaction of its fulfillment. I see every day the consequences of its violation: the elaborate rules of our red tape, the endless maneuvering of our meetings, the searching for hidden tricks, the deathly slowness of our decisions—

all arising from our lack of full trust in one another.

In the future will we have to have more mutual trust than we have today?

Yes, I think so. As I watch the terrible consequences of the violation of the Golden Rule in today's world, I hope that the future society will be wiser as well as more learned than we.

It may be that through a great wave of science we may reach an era of good manners.

One can't give a date, but one can be certain that, when each of the smaller nations possesses atomic weapons capable of inflicting damage greater than the value of that nation, surely all nations, great and small, will be polite to one another.

Do you foresee any necessary political changes in order to have this dynamic society, any changes in our form of government?

I think that the fate of democracy in the dynamic society of the future will depend upon the percentage of the people who are fit for freedom.

What do you mean by those fit for freedom?

Seeking democracy in America, we have provided abundantly for mediocrity. If we continue in this,



"Of all the nations, America has the tradition of growth and of personal resilience best suited to a transformation toward a dynamic society..."

we may breed up a numerous comfortable mediocrity and only a few superbly endowed people who have managed to achieve their capabilities.

In such a circumstance, when a deadly crisis comes, the mediocre will have no recourse but to huddle at the feet of the competent. The name for this is dictatorship.

But if any considerable percentage of the people of a country fit themselves by discipline and education for freedom in tomorrow's world, then democracy will automatically result.

How might relations of business with the government change?

Today we see an increasing reliance by industry upon statistical and other information gathered by the government for the purpose of forecasting future conditions. This governmental role in assistance to industry will continue to grow.

Another present trend, particularly in the military field, is for the government to absorb the risk of innovations. As the pace of innovation increases, so will its risks and its rewards. One hazard is that, if the government absorbs the risk of innovation, industry will be encouraged to relax its management effort and thus increase the cost of innovation.

How could that happen?

An indifferent management could easily drive the cost of innovation to the point where its absorption by the government would threaten the stability of the economy. It seems to me that the nation as a whole must make a profit. If innovation is imperative to the national welfare and if the cost of that innovation rises above the net profit of the national economy, it could break the country. While I personally would prefer to see the continued healthy growth of private enterprise and the corresponding willingness of industry to absorb the risks of innovation, the essential point here is that by all means we must develop a quality of management capable of controlling the cost of innovation and showing a net profit in the effort.

I would anticipate that when a management of such skill as to accomplish rapid and radical innovations at a profit does appear, this management will be able to create such a competitive situation as to have profound effects upon the civilian economy.

Our greatest danger as a country

lies in not being able to change as fast as technology. Is that true?

Yes. There is a line of reasoning that leads to the conclusion that the cold war may have a surprise ending in the collapse of the men and institutions of one side or the other in the increasing torrent of change.

The nation that stumbles and collapses may be the one that cannot run fast enough to keep up with the change.

What part will world-wide industrialization play in our future economy?

The industrial revolution started on the shores of the English Channel in Britain and France. It spread across the world. Its highest points are now perhaps in Detroit and Moscow. It leaves some depression behind as it moves and it continues to sweep on. Some day it will culminate in China.

China has the people and the resources. When it has passed through the industrial revolution it might then become the decisively dominant world power.

Will the United States or the Soviet Union go down as China rises?

Not necessarily; we may intervene. It is like driving a motor car. You see that you are going to hit the fire hydrant unless you turn the steering wheel. If you turn the wheel, you remove the present danger and aim yourself for the telephone pole in the next block. This requires further action. If we just sit here, we can forecast pretty accurately that we will not remain in our present way of life.

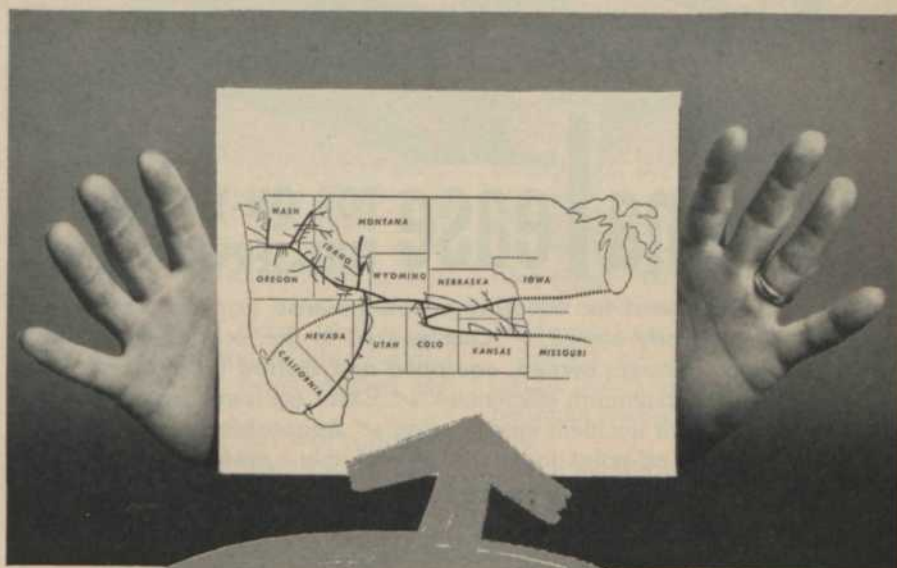
Of all the nations, America has the tradition of growth and of personal resilience best suited to a transformation toward a dynamic society. If we determine to do so, we can use the present platform of our achievements to spring once again upward to powers literally beyond our present imaginings. Our forefathers, starting with a dream, gave us what we have now. If we can make that dream live again we can make another leap upward as great as was theirs.

One way to look at it is to think of our present society, the result of the industrial revolution, as a hybrid between a dynamic technology and a static social tradition. Even this hybrid has the powers to revolutionize the world. If we can develop a dynamic society to match our dynamic sciences, the way is open for an entirely new order of achievement.

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INCOMES & MARKETS

continued from page 32

High income means
bigger families,
changed spending

will continue to drop. The number with incomes above \$5,000 should rise about three times as fast as it rose between 1957 and 1958. The rise in the number with incomes of \$10,000 or more may be nearly ten times as great.

As the average rises, the number in the lower income groups drops. In 1940 about 60 per cent of the total families had incomes under \$4,000 in 1957 purchasing power. By 1960 those with incomes under \$4,000 should account for less than 35 per cent of the total. This 35 per cent will be made up to a large extent of young families just getting started, older families with no full-time wage earner, families whose breadwinner is temporarily unemployed or permanently unemployable, farmers on marginal land, and some families with poorly skilled workers.

Most families with one or more full-time members of the labor force will have incomes of more than \$4,000 and more than half will have incomes of at least \$6,000.

As the bottom income bracket moves up so do the next-to-the-bottom, the center and the above-average families. The further the rise, the fewer left at the old bottom, and the more there are at the old top. So the number with incomes below \$5,000 drops, and the number with incomes above \$7,500 rises markedly.

This is a natural development of a successful economy.

While this rise in incomes is but a continuation of what has been going on since 1940 it cannot be assumed that the rise will never be interrupted. It has always been interrupted in the past. In making plans for the future, it may be wise to prepare for a tremendous increase in the number of households with incomes of more than \$5,000, and particularly for an increase in the number with incomes exceeding \$10,000 and, at the same time, to be prepared for short interruptions in the rise.

Several possible developments might change the outlook. For instance, should the hours of work

drop faster in the future than in the past, our sights would have to be lowered. Families might decide that shorter hours and more leisure would have greater value than more money. From the standpoint of national income data this would suggest that our standard of living was not rising or our gross national product was not going up as fast as that of the Soviet Union. From the standpoint of real values, our income might be rising as fast or even faster than it rose under a 40-hour week.

It is also possible that cutting the workweek would increase working hours. In Akron, where rubber company employees have a short workweek, many people hold two jobs. A cut in the workweek might, therefore, hide increased pay and longer hours. It would not have to be inconsistent with a growth in dollar income.

A shorter workweek could also have two possible effects on capital costs.

The cost of capital is a rising percentage of the total cost of producing goods. Much of this cost goes on seven days a week whether the capital is used or not. If a cut in the workweek resulted in fewer machine hours per year, the cost of the capital per hour used would rise. This would reduce the proportion available for labor. If shorter hours were combined with more double or triple shifts so as to increase the use of capital, this development need not occur.

These points emphasize that any projection is subject to many qualifications.

The impact that the probable future growth in average income will have on markets will vary. The consumption of calories, for instance, will not be affected appreciably. The average calorie intake has not changed much in the past 60 years. But the market for fresh foods and prepared foods, as well as the market for specific types of meat, will be affected.

The farm crops that dominated the field when agricultural support laws were first passed will no longer dominate the field for either farmers or consumers. The market for leisure clothes, as distinguished from work clothes, will be affected. Even the type of work clothes in demand will change. The willingness and ability to buy rather than to rent will continue strong. Quality will be of increasing importance. Services, which accounted for 40.6 per cent of consumer outlays in 1929, accounted for only 38.5 per

cent in 1958. But the percentage is rising again.

Many aspects of this growth of income will be significant. The rise in incomes has helped check the decline in the number of persons per family. This rise in the number of children in families is giving the purchase of homes a high priority.

Studies of the University of Michigan and the Federal Reserve Board continue to show families emphasizing the importance of good homes. Studies by the Bureau of the Census show that more than 300,000 substandard units a year have been demolished in recent years.

The vacancies today tend to be in substandard units. Rents for desirable units are being pushed up continually.

The rise in incomes will continue to encourage the removal of substandard housing and its replacement by improved housing.

Another factor must be borne in mind—the shift in the age distribution that is ahead. This is not directly related to the change in incomes, but the increase in incomes will influence the way the changed age distribution affects markets. The number of households headed

by individuals from 30 to 45 will not increase in the next few years. There will be big increases in the number under 30 and older than 55. With rising incomes, this will mean an increased market for smaller homes, apartments and permanent trailers.

This shift may decrease interest in exurbia and the suburbs.

Rural non-farm growth, which has recently been about 500,000 households per year, may drop to around 425,000. Urban growth, which in recent years has been more than 500,000 per year, may rise to 650,000 or 700,000 but the amount of new land needed per new household may be appreciably less.

Even a luxury apartment makes use of less land than three or four-bedroom homes on half-acre or acre lots.

The market resulting from the increase in the number of children and from the higher income received by the increased number of young and old families will be difficult to assess in each community. In some cities a decline in the number of middle-aged families may be more than offset by the increased number of children in the families left in these age brackets. The existing

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stock of larger houses may, therefore, be inadequate.

One thing that does seem probable is that in a large proportion of communities the demand for good apartments will grow. This will help reduce pressure for transferring raw land to residential use.

The movement from exurbia to suburbia, and from suburbia to

cities, and the rising income accompanying this movement, will have many effects on distribution facilities, transportation, employment, and financial institutions. The financing required for an apartment house, for instance, may be different and use different institutions than the financing of single-family dwellings. (Some of the possibilities were suggested in the article, "Get Ready For A Boost in Sales," *NATION'S BUSINESS*, November, 1955.)

The prospects for the 1960's are

tremendous and, after allowing for the lag that accompanies any change in income distribution, these prospects should begin to appear by fall of this year or at least by the spring of 1960.

—ROBINSON NEWCOMB

A more detailed analysis of the consumer and his buying intentions, as revealed in late survey results, may be found in the article which begins below.

New consumer mood affects you

Analysis of buyers' psychology throws light on future markets

BY GEORGE KATONA

CONSUMERS are much more optimistic and confident now than a year ago. The chances are that their willingness to buy will improve further so the longer-range prospects are favorable.

But consumers are not in a mood to go on a spending spree. They need to be persuaded to buy. Products must be attractive and offered at prices thought to be right.

Because of worries about inflation and the impact of the recession on millions of households, the time span between the recession and a return of improved sentiment for consumer durables is much longer now than in 1954-55.

These conclusions emerge from the most recent measurement of consumer attitudes and intentions to buy, carried out in the 1959 survey of consumer finances—a cooperative undertaking of the Federal Reserve Board and the Survey Research Center of the University of Michigan, reported in the *Federal Reserve Bulletin*.

To understand the lag in consumer demand for durables, the reported findings must be viewed in the perspective of data collected earlier by the Survey Research Center. This will show why, although the long-run prospect is bright, immediate prospects require a cautious appraisal.

Why did the recession of 1958 not

degenerate into a long and deep depression? In the spring of 1958 ominous signs of a cumulative downward spiral were apparent: Under the impact of worries about jobs and incomes, consumers curtailed their expenditures slightly near the end of 1957; when a few months later the news about rising unemployment spread, they cut their expenditures greatly.

It was possible that sustained high confidence, which characterized the economic climate for 15 years before 1958, would give way to a prolonged period of uncertainty and uneasiness. It was also possible that after many years of large purchases the major wants of consumers were depleted and households were saturated with goods.

Consumer surveys in the summer of 1958 contradicted these notions. In 1958, as in the previous prosperous years, most American consumers were convinced that a major depression could not occur again. They thought that we had learned how to avoid a depression. Most consumers, in the upper as well as in the lower income brackets, also maintained their long-range confidence. They were convinced that, over a period of years, they would improve their standard of living.

These underlying opinions and feelings (described in the August 1958 issue of *NATION'S BUSINESS*) help to explain a major finding made in the summer of 1958: People's desires and wishes for additional and better durable goods were

as frequent during the recession as in the previous good years.

When consumers were asked to name special or unusual expenditures they would like to make, the answers received in 1958 could not be distinguished from those of one or two years earlier. Approximately two thirds of all families described at least one, often several, desires. Automobiles, household appliances, additions and repairs to homes, cottages, and trips, as well as luxury and hobby expenditures, were all reported with similar frequency in 1958 as in 1956.

But the follow-up question, "What are the chances that you will buy a car (household appliances, etc.) in the next 12 months?" brought different answers. Many fewer people said that they intended to buy.

Last year's sharply reduced consumer purchases of durables may be attributed to postponement of transforming desires into demand. Because of misgivings about income, employment, and the prospects for the economy, as well as dissatisfaction with prices, a substantial proportion of consumers decided to buy less on installment than earlier.

But the underlying confidence in long-run prospects was not destroyed. Therefore, consumers reacted to easy money conditions by stepping up their purchases of new houses. Also, they did not increase their savings greatly and maintained their expenditures on nondurables and services.

The low point of industrial pro-

Dr. Katona is program director of the Survey Research Center of the University of Michigan.

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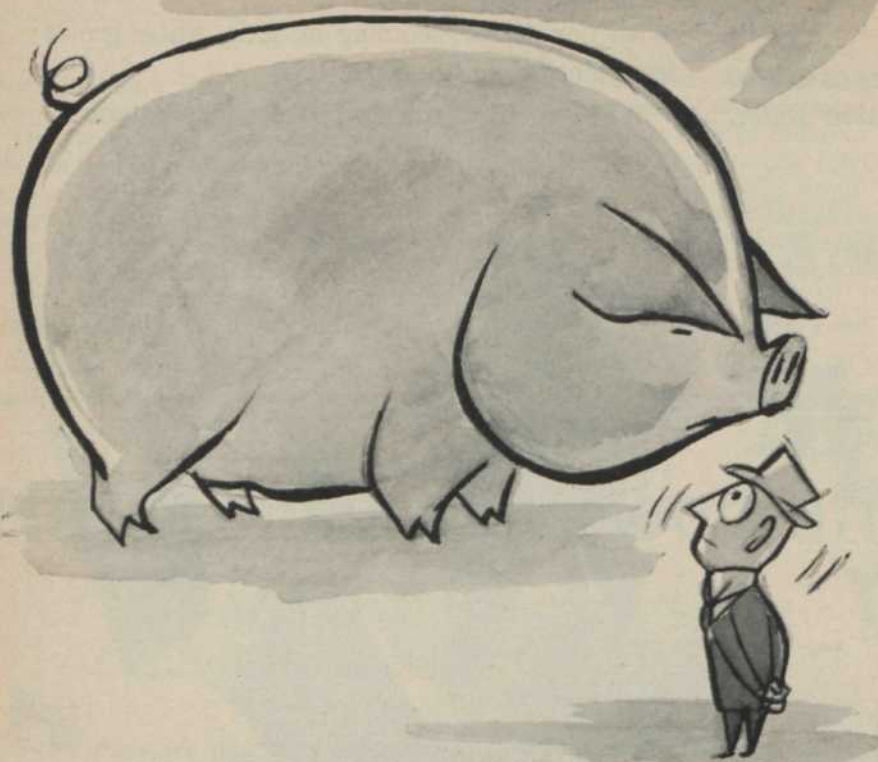
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Pete Progress

Speaking for your
local Chamber of Commerce

duction was reached in April 1958. Since then the rate of production has recovered practically to the pre-recession levels. National income is even higher than before the recession—partly because it reflects inflation. But business expenditures on plants and machinery as well as consumer expenditures on durable goods are still lagging and are responsible for much of the current unemployment.

Consumers' investment expenditures present an especially puzzling problem because their ability to buy is at least as high as before the recession. (This is reflected not only by rising incomes and liquid asset holdings, but also by lower debt-income ratios.)

Obviously, we cannot explain the present rate of durable goods purchases by study of aggregate economic indicators. We need to look more closely at consumer psychology.

During the summer and fall of 1958, consumer sentiment recovered from its earlier low point, but the scars inflicted by the recession did not heal completely. About 25 per cent of American families reported in October 1958 that they had experienced unemployment or worked shorter hours sometime in the previous 12 months. An additional 13 per cent felt that the recession had adversely affected their financial situation in other ways.

Even if the recession brought nothing worse than a few weeks of enforced vacation or the omission of an anticipated income increase, the families felt hurt. They spent for necessities but they cut out those expenditures which they most liked to make.

During the past few months, a substantial proportion of consumers heard that the recession had ended.

This was good news and yet it also gave rise to disappointment. Most Americans believe that recession and rising prices do not go together. When the recession came, they had expected lower prices for consumer goods. But the recession passed with no price reductions; times were far from good when papers and radio were again voicing warnings about inflation.

Attitudes toward inflation and reactions to inflationary news may vary greatly. In certain countries at certain times most people who expected prices to go up tried to beat inflation by buying goods in excess

CONSUMER MOOD

continued

of and in advance of needs. Not so in the United States during the past few years. For most Americans, inflation means bad times in which an increased share of income is needed for necessary expenses so that discretionary purchases must be restricted.

There is at present ample evidence of dissatisfaction with prices and some evidence that goods offered lack attraction.

Now we are in a position to understand the most recent findings on consumer attitudes.

According to the Survey of Consumer Finances early in 1959, buying intentions for new cars were approximately halfway between what they had been early in 1958 and early in 1957. There was some recovery but hardly enough in view of the need for continuous growth of the economy. Intentions to buy household appliances likewise did not recover much.

On the other hand, the 1959 purchase plans for one-family houses—either new or old and intentions to make improvements and additions to houses—appear to be more frequent than a year ago.

Since purchases of durable goods are influenced by recent changes in financial conditions, further survey data are revealing. Early in 1959 more families reported income increases and fewer families income decreases than a year ago. But when the 1959 data are compared with those obtained in 1957 the reverse is true. In 1959 there were fewer reports of income increases and more of income decreases than in 1957. Similarly, when consumers were asked whether they felt better or worse off financially than a year ago, some improvement against 1958 was noticeable but not to the levels of 1957.

Yet attitudes toward personal finances and income expectations appear to have improved during the past few months.

Expectations about forthcoming business trends likewise shape purchase plans and decisions. These were much more optimistic in 1959 than a year earlier. But in this respect the recovery was visible last fall and the improvement since that time is hardly significant. Yet the proportion of people expecting prices to go up has increased greatly from 1958 to 1959 which detracts from the optimistic conclusions drawn from the favorable showing of current income expectations. **END**

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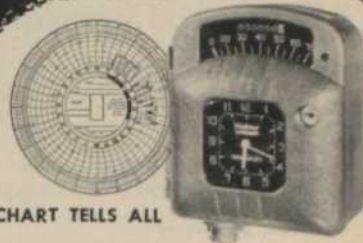


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TAX DECISION

continued from page 19

Keeping record of sales in states will be burden

generally the case with the large multistate businesses; third, the businesses affected will be mainly the medium and small companies; fourth, the wording of the statutes and regulations of a number of states make its present tax inapplicable, fifth, the apportionment formulas moderate the burden of the tax and in many instances provide opportunity for substantial avoidance.

Of the burdens regarding tax returns and records and tax apportionment mentioned by Justice Frankfurter, the application of the apportionment formulas is perhaps the most formidable. The property and payroll fractions present no special problem aside from the work involved.

But the sales fraction is another matter. The bewildering variety of definitions for the sales numerator must somehow be simplified so that appropriate entries may be made on the order forms and from there carried to the invoices to permit determination of the dollar volume of the numerator for the various states.

Unless the business is small and simple, this generally means some system for coding every invoice.

Considering the thousands of invoices generated by a business of any size, this is a task so monumental and so susceptible to clerical error that large companies use the most advanced electronic data processing machines to handle it.

What will the medium and small-sized businesses that cannot afford these techniques do?

Uniformity in allocation formulas would greatly simplify the task but the states are reluctant to incur a period of uncertain revenues through the use of a formula different from that now employed. So little progress is to be expected from voluntary action by the states.

Action by Congress, which clearly has authority under the commerce clause, would seem to be the only hope.

But Congress has shown little inclination to enter the field. We may, therefore, expect considerable litigation in this field. **END**

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We adopt such slogans as "every man is entitled to a job."

We properly regard unemployment as a social tragedy both for the man out of work and the community where he lives. To temper the effects of this tragedy every state has set up an unemployment compensation program.

Since 1935 states have had full discretion to determine who should be eligible for unemployment benefits, how big these benefits should be and for how long they should be paid. Exercising this discretion, the states today pay an average of \$30.58 to workers out of a job; more than 75 per cent of covered workers are in states which continue these payments for six months or more. Only three states pay benefits for less than 20 weeks. About 75 per cent of American workers now can collect at least 50 per cent of their normal pay should they be temporarily without jobs. Since 1954 the amount of benefits has increased faster than either wages or the cost of living.

Special business taxes in the states make these payments possible.

Now we are told that this is not enough.

Building up in Washington is a demand for "minimum federal standards" for unemployment compensation, on the grounds that state programs are inadequate and that "Congress would do the job better." One proposed minimum would permit a person who worked five

months to collect at least 50 per cent of his weekly pay for nine months. After nine months' work, he could collect benefits for a year.

Another proposal would require payment of benefits after six weeks idleness no matter what caused the unemployment—a suggestion which would, in effect, require businessmen to give financial support to strikes against themselves.

Undoubtedly those who suggest such standards are moved by a commendable urge to alleviate human hardship. This is a worthy motive. We need a strong, sound unemployment compensation program which provides reasonable benefits for those who are laid off through no fault of their own. Today we have a greater number of people out of work than in recent years. Everybody, including the federal government, can have a part in correcting this.

But we can best help the unemployed, not by increasing their comfort in idleness, but by increasing their chances to find work.

We don't do this by creating new difficulties, hazards or costs for those who provide the jobs. Congress will do this if it undertakes to meddle with an unemployment compensation system which is adequate to its purpose, as fair as possible and adapted to the varying living and working conditions in different areas.

In addition, it will be spending to little purpose time it might have used to consider and improve or eliminate the wide range of federal programs which harass the job maker.

Only by making it easier to provide jobs can Congress show true sympathy for the unemployed.

The deserving man who really wants to work will not be satisfied with benefits no matter how big or of what duration.



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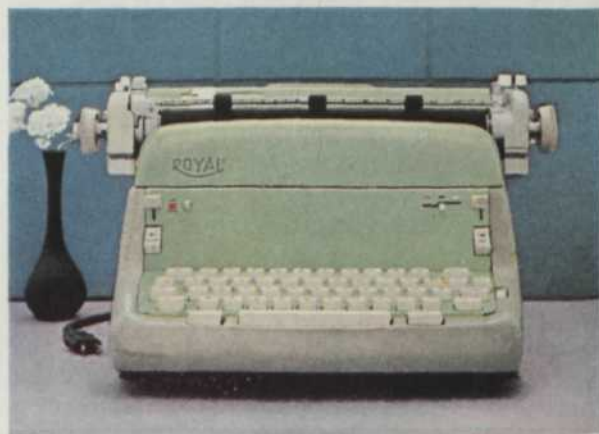
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